

**PACIFIC ISLAND NATIONS:
CURRENT ISSUES AND U.S. INTERESTS**

HEARING
BEFORE THE
SUBCOMMITTEE ON EAST ASIA
AND THE PACIFIC
OF THE
COMMITTEE ON
INTERNATIONAL RELATIONS
HOUSE OF REPRESENTATIVES
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CONTENTS

	Page
WITNESSES	
Matthew Daley, Deputy Assistant Secretary, Bureau of East Asian and Pacific Affairs, U.S. Department of State	8
Mary Beth West, Deputy Assistant Secretary, Bureau of Oceans and International Environmental Scientific Affairs, U.S. Department of State	14
Wali M. Osman, Bank of Hawaii Senior Fellow for Pacific Economies, East-West Center	20
LETTERS, STATEMENTS, ETC., SUBMITTED FOR THE HEARING	
The Honorable James A. Leach, a Representative in Congress from the State of Iowa, and Chairman, Subcommittee on East Asia and the Pacific: Prepared statement	3
The Honorable Eni F.H. Faleomavaega, a Representative in Congress from American Samoa: Prepared statement	6
Matthew Daley: Prepared statement	11
Mary Beth West: Prepared statement	16
Wali M. Osman: Prepared statement	23
APPENDIX	
Material Submitted for the Hearing Record	49

PACIFIC ISLAND NATIONS: CURRENT ISSUES AND U.S. INTERESTS

TUESDAY, JULY 23, 2002

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON EAST ASIA AND THE PACIFIC,
COMMITTEE ON INTERNATIONAL RELATIONS,
Washington, DC.

The Committee met, pursuant to call, at 11:05 a.m. in Room 2175, Rayburn House Office Building, Hon. James A. Leach presiding.

Mr. LEACH. The meeting will come to order, and on behalf of the Subcommittee I would like to welcome our distinguished witnesses. We are pleased to have Deputy Assistant Secretary Daley for his second appearance before us in as many months. We are also joined for the first time by Ambassador Mary Beth West, who is Deputy Assistant Secretary of State, the Bureau of Oceans and International Environmental Affairs. Then we have Mr. Wali Osman, who is the Bank of Hawaii Senior Fellow for Pacific Economics at the East-West Center, and we are honored that you are with us as well, sir.

At the outset I would like to express my appreciation to the Department of State for agreeing to the unusual format for today's hearing. Customarily Administration witnesses testify first, but because of the shortness of the week in terms of our moving hastily towards recess, I am very appreciative that the department has consented to this, and just so that there is no misunderstanding, in terms of precedent the department always has its discretion, and if you ever wish to insist on going first without a private sector witness, you always have that right. And I appreciate, given the informality of the situation, that you have consented to this.

Our hearing today will focus attention on a vast region of the Pacific covering a third of the globe and including 12 independent nations with whom we have a common history and shared democratic values. Although Washington's posture toward the region has often oscillated between engagement and neglect, I am confident this Administration seeks to put our relationship on a sound and sustainable footing.

By background, at least in the middle of the century, during World War II, thousands of Americans, including two future Presidents, John F. Kennedy and George H.W. Bush, fought together with the people of the Pacific Islands to protect a shared heritage of freedom and peace. During the Cold War, the U.S. emphasized a policy of strategic denial designed to prevent the Soviet Pacific fleet from establishing a beach head in the region, and concern

about Russia in the late-'70s helped spur Washington to issue its first comprehensive regional policy statement, one which was notable in part because it emphasized a limited role for the U.S. in the South Pacific relative to that of Australia and New Zealand, both countries of which we are appreciative of their leadership and input.

A period of strained relations was brought to an end in the late-'80s, symbolized by President H.W. Bush's attendance at the first ever U.S.-Pacific Islands Nations Summit. Unfortunately, several years later, U.S. interest in the region appeared, relatively speaking, at least, to wane.

During the mid-1990s, our diplomatic presence in the region was sharply reduced. Bilateral foreign assistance programs were eliminated, and academic exchanges were curtailed. These developments threatened to dissipate the region's reservoir of goodwill that had existed since the Second World War and which the October 1990 Honolulu Summit had done so much to restore.

While U.S. interests in the region may be relatively modest, many are nonetheless important and deserving of a broad, long-term strategy aimed at promoting economic development, political stability, the strengthening of democratic institutions, and environmental protection.

In particular, as the events of September 11th make all too clear, small states in the international system may often become the breeding grounds for a variety of transnational threats. Unfortunately, poverty, political instability, and weak governments has made some Pacific Island countries vulnerable to organized crime.

This Subcommittee looks forward to working together with the Administration to ensure that our Pacific Island neighborhood is not allowed to become a safe haven for criminality, whether it be of a more common nature or of the new kinds of terrorist variety that we are now confronted.

Finally, Members should be aware that the U.S. is currently renegotiating elements of the Compact of Free Association with the Federated States of Micronesia and the Republic of the Marshall Islands. I am pleased, Mr. Short, you have joined us to answer questions in that regard. The economic assistance provisions of the compact expired in 2001 but remain in effect for an additional 2 years while the parties negotiate the affected provisions. Negotiations are complex, involving multimillion-dollar commitments potentially of new assistance through new sector grants, continued federal program assistance, a trust fund as a mechanism to provide for the eventual end of U.S. mandatory annual financial assistance, a strengthening of fiscal accountability measures, and modification to current migration provisions.

Although agreement has not yet been reached on key aspects of the U.S. proposal, it is likely that the Administration will submit to the Congress new authorizing legislation for the compact sometime early in the next Congress. In this regard let me just say the Subcommittee hopes to be particularly supportive of Administration negotiations, and we are empathetic to negotiations which are sympathetic to the region, but we do not want to serve as a counterpoint for negotiations, and so we will do the best we can to be as supportive of Administration negotiations as possible.

Before turning to the witnesses, I would like to say this is a historically unusual situation for a panel because on the panel up here we have probably the world's leading authority on the region, and we are honored to have Mr. Faleomavaega on this Committee, and as Chairman I would like to say as often as possible I would like to defer to his good judgment. Mr. Faleomavaega.

[The prepared statement of Mr. Leach follows:]

PREPARED STATEMENT OF THE HONORABLE JAMES A. LEACH, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF IOWA, AND CHAIRMAN, SUBCOMMITTEE ON EAST ASIA AND THE PACIFIC

On behalf of the Subcommittee, I would like to welcome our distinguished witnesses. We are pleased to welcome Deputy Assistant Secretary Daley for his second appearance before us in as many months. We are also joined for the first time by Ambassador Mary Beth West, Deputy Assistant Secretary of State in the Bureau of Oceans and International Environmental Scientific Affairs, and Dr. Wali Osman, who is the Bank of Hawaii Senior Fellow for Pacific Economies at the East-West Center.

At the outset, I would like to express my appreciation to the Department of State for agreeing to the unusual format for today's hearing. Customarily, Administration witnesses testify first with private experts to follow on a separate panel. However, with the Department's consent, we are departing from the normal custom because of scheduling difficulties this week relating to the impending Congressional recess.

Our hearing today will focus needed attention on a vast region in the Pacific, covering roughly a third of the globe and including 12 independent nations, with whom we have a common history and shared democratic values. Although Washington's posture toward the region has often oscillated between engagement and neglect, I am confident this Administration seeks to put our relationship on a sound and sustainable footing.

By background, during World War II thousands of Americans, including two future presidents—John F. Kennedy and George H.W. Bush—fought together with the people of the Pacific Islands to help protect a shared heritage of freedom and peace. During the Cold War the U.S. emphasized a policy of strategic denial designed to prevent the Soviet Pacific fleet from establishing a beachhead in the region. Concern about Russia in the late 1970s helped spur Washington to issue its first comprehensive regional policy statement, one which was notable in part because it emphasized the limited role for the U.S. in the South Pacific relative to that of Australia and New Zealand.

A period of strained relations was brought to an end in the late 1980s, symbolized by President George H.W. Bush's attendance at the first ever U.S.-Pacific Island Nations Summit. Unfortunately, several years later U.S. interest in the region appeared to wane.

During the mid-1990s our diplomatic presence in the region was sharply reduced, bilateral foreign assistance programs were eliminated, and academic exchanges were curtailed. These developments threatened to dissipate the region's reservoir of goodwill that had existed since the Second World War, and which the October 1990 Honolulu summit had done so much to restore.

While U.S. interests in the region may be relatively modest, many are nonetheless important and deserving of a broad, long-term strategy aimed at promoting economic development, political stability, the strengthening of democratic institutions, and environmental protection.

In particular, as the events of September 11th make all too clear, the smallest and weakest states in the international system may often become the breeding grounds for a variety of transnational threats. Unfortunately, poverty, political instability, and weak governance has made some Pacific Island countries vulnerable to organized crime. This Subcommittee looks forward to working together with the Administration to ensure that our Pacific island neighborhood is not allowed to become a safe haven for traditional criminals or the more virulent new strain of international terrorists.

Finally, Members should be aware that the U.S. is currently renegotiating elements of the Compact of Free Association with the Federated States of Micronesia (FSM) and the Republic of the Marshall Islands (RMI). The economic assistance provisions of the Compact expired in 2001, but remain in effect for an additional two years while the parties negotiate the affected provisions. The negotiations are complex, involving multibillion dollar commitments of new assistance through new sec-

tor grants; continued federal program assistance; a trust fund as a mechanism to provide for the eventual end of U.S. mandatory annual financial assistance; a strengthening of fiscal accountability measures; and modification to current migration provisions. Although agreement has not yet been reached on key aspects of the U.S. proposals, it is likely that the Administration will submit to the Committee new authorizing legislation for the Compact sometime early in the next Congress.

In any regard, we have a full agenda for today's hearing and we look forward to the testimony of our witnesses.

Mr. FALCOMA. I appreciate your kind comments, Mr. Chairman, and I want to certainly thank you for calling this hearing and having our distinguished witnesses come before us this morning to testify. I certainly want to offer my personal welcome to Secretary Daley, Ambassador West, and Dr. Osman. I look forward to hearing from them.

In the essence of time, Mr. Chairman, I want to ask unanimous consent that my statement be made part of the record, and there are just a couple of observations that I want to share with our witnesses before they give us their statements. We had a hearing last week on the Resources Committee about the status of the Compacts of Free Association, at least for the Department of Interior, having administrative responsibility and allocation of the funds that the Congress has given on a yearly basis for the needs of our Micronesian allies, primarily the Republic of the Marshall Islands, the Federated States of Micronesia, and Palau.

One of the issues that still bothers me tremendously, Mr. Chairman, is the fact that in the aftermath of our nuclear testing program, perhaps many of our fellow Americans may not be aware of this, but we detonated about 67 nuclear bombs, among them highly destructive hydrogen bombs, in the Marshalls. And we did not do a very good job with the safety of our nuclear testing program, Mr. Chairman, given the fact that many of the Marshallese people were subjected and directly exposed to nuclear contamination in some of the nuclear tests that we detonated during that period of time. To this day, our government still has been waffling and not really done a good job in properly compensating those people who were directly affected from nuclear contamination. I do intend to pursue this issue more vigorously in the coming weeks and months so that our government can be a little more responsive to this tragedy.

There seems to be a movement now in a very aggressive way that our friends from Australia and New Zealand want very much to establish Free Trade Agreements with the United States, leaving our Pacific Island nations in somewhat of a fuzzy, vague way in saying are you with us or not? In recent meetings with some of our friends from Australia and New Zealand, I was personally disappointed that Australia and New Zealand do not seem to have this collective sense of community in discussing more openly and in all candor what are the economic needs of only 13 or 14 Island nations to go with the FTA package. But it seems that they want to do it on their own, and it is their absolute right to do so.

I am very disappointed that there did not seem to be any sense of concern. It is like, well, you get your act together, you Island people, and then we will talk about it. That is kind of strange. These Island nations' economies are so minor in comparison to many of the industrialized countries, and I kind of hoped that maybe if there was to be some Free Trade Agreement with the Pa-

cific nations, that it would include the Island countries as well as Australia and New Zealand.

So I definitely want to very much to pursue this issue. The government officials of Fiji have posed the issue in the recent South Pacific Forum at the East-West Center, as they would like to do a Free Trade Agreement similar to what the Caribbean Basin Initiative has been doing for countries in that region in years past. In principle, I am in agreement with this concept, even though I do not know exactly what the ramifications are going to be. I certainly would like to do something that will be helpful to these small Island economies.

I mentioned earlier about the nuclear testing program, Mr. Chairman, and sad to say some of the Administration officials in times past have made declarations to the effect of the \$2.2 billion that we have given to the Micronesians for the 15-year period of the Compacts—it was a waste of money. And that to me, Mr. Chairman, is ludicrous, given the fact that these people have been subjected to three colonial masters, none of their own choice, and having to live under colonialism. To suggest that we have wasted giving \$2 billion for the Micronesians—where we have expended trillions of dollars in improving our nuclear deterrent, at the expense of the lives of the Micronesians I might add—is incomprehensible. That someone would come up to me and say that the \$2.2 billion was wasted is incomprehensible. I do not know if we can ever equate any dollar amount to the value of the life of any person who became contaminated directly because of our nuclear testing program.

The last point I wanted to make, Mr. Chairman, regards the issue of terrorism. I do not think there is any question that the Island nations are probably the most vulnerable when it comes to terrorism. They just simply do not have the proper infrastructure and controls. They cannot even patrol their own EEZ zones as they do have any enforcement vessels. I know recently the Australian government donated some Island government a little patrol boat. However, it cost them more money than they can afford to put the fuel in the boats to visit the 200-mile EEZ zone and patrol this rich resource that they have as far as the ocean, the marine resources that are available.

But there is absolutely no question in my mind, Mr. Chairman, the Island nations are definitely highly vulnerable to any terrorist activities in the region, and maybe our friends from the State Department and other experts who will testify this morning will give us a better perspective about what is happening there.

I just returned from a conference on environmental issues that was held in the Cook Islands about 2 weeks ago, and a very, very serious concern and issue among the Island nations pertain to the environment. I realize that some of our top officials here do not consider global warming as a serious issue, and one of our colleagues on the Committee has stated that global warming is global bologna. I sincerely hope that with the collected data, evidence and facts, it will convince my good friend that global warming is a very serious problem. It impacts not only the Island nations, but also this nation as well. Don't you wonder why we have 400,000 acres of fire in the states of Arizona and Colorado, and flooding and other

weather-related catastrophes now occurring in our country? It is because of global warming. Now, maybe some of the experts may disagree with my observations, but I believe that this is a very serious issue, and I sincerely hope that our government will be a little more receptive to the concerns expressed by our Island nations, as well as other nations from other regions of the world.

With that, Mr. Chairman, I thank you for the opportunity to vent my frustrations or at least express the perspective on problems that we are faced with in the Pacific region, and I look forward to hearing from our witnesses. Thank you.

[The prepared statement of Mr. Faleomavaega follows:]

PREPARED STATEMENT OF THE HONORABLE ENI F.H. FALEOMAVAEGA, A
REPRESENTATIVE IN CONGRESS FROM AMERICAN SAMOA

Mr. Chairman:

I want to thank you for calling this hearing today to examine the state of affairs in the Pacific Islands region, an area of the world that for much too long has been neglected and too often overlooked by our Nation.

I join you in warmly welcoming our distinguished witnesses, two of whom are from the State Department—the Honorable Matthew Daley, Deputy Assistant Secretary for East Asian and Pacific Affairs, and a friend I have worked with closely over the years on fisheries issues, the Honorable Mary Beth West, Deputy Assistant Secretary for Oceans and International Environmental Scientific Affairs.

I further welcome our distinguished guest from the highly-respected institution, the East-West Center in Hawaii. Dr. Wally Osman comes with tremendous credentials and we look forward to the benefit of his expert financial analysis of the Island nations of the Pacific region.

Before we begin, I also wish to join the Chairman in extending my heartfelt welcome to Washington for our fellow Parliamentarians from our close friend and ally, the Government of Taiwan. We thank you as we are deeply honored by your presence this morning. Please convey our warmest greetings to all our colleagues in Taiwan's National Assembly.

Mr. Chairman, the Pacific Islands region can no longer be taken for granted by the United States. Our great nation has tremendous security, political and economic interests in the Pacific that must be addressed and given greater attention.

As we all know, the U.S. and the Freely Associated States of the Republic of the Marshall Islands and the Federated States of Micronesia are presently engaged in negotiations over the Compacts of Free Association. This is an extremely important exercise with these young nations that I strongly feel must be conducted with equity, with fairness, with justice—and with an eye to our historical relationship and debt to these longtime partners and allies.

In particular, with the Marshalls, our nation has tremendous security and strategic interests with the Ronald Reagan Missile Range on Kwajalein Atoll. Our Marshallese friends are once again extending themselves and proving their friendship with America by providing the interceptor test site that is at the heart of the Bush Administration's Missile Defense initiative.

On that note, all Americans should never forget the horrifying sacrifices and penalties borne by the people of the Marshall Islands when we conducted 67 devastating nuclear detonations in their homeland. This is a very ugly experience whose ending has yet to be told and proper compensation made—if money could ever hope to make good the personal toll in lives lost or irreparably injured, communities disrupted and uprooted, and homes and islands still contaminated with radiation. The sacrifices made by the people of the Marshall Islands have ensured today that our nation's nuclear deterrent is robust, reliable and unmatched—which incidentally was just a small factor in America prevailing in the Cold War over the "Evil Empire."

We must do right with the people of the Freely Associated States as we proceed to conclusion with the Compacts. It is in no one's interest that these two Pacific Island nations fail as states due to economic collapse brought on by our desire to shave pennies in the Compact negotiations. This is especially shameful given the hundreds of billions of dollars that have been and will continue to be invested by the United States in National Missile Defense to ensure the security of all Americans today and generations to come.

Mr. Chairman, I also look forward to an update as to troubling political developments, instability, violence and ethnic unrest in the Solomon Islands, Papua New Guinea and Fiji. In particular, it would be helpful to better understand what our nation is doing to assist on the ground for the preservation of democratic government and open market economies in these troubled countries.

On the environmental front, I am very concerned with global climate warming and the resultant phenomenon of rising sea-levels, which threatens to completely inundate several low-lying Pacific Island nations, such as Kiribati. What are we doing to work with the South Pacific Regional Environmental Programme (SPREP) to counter this problem, along with promoting preservation of the Pacific's unique biodiversity, natural resources and marine environment?

On that point, the 78 nations of the African, Caribbean and Pacific (ACP) Summit meeting in Suva, Fiji, just yesterday condemned the passage of two British armed nuclear vessels carrying U.S.-origin plutonium MOX through the Exclusive Economic Zones (EEZ) of 6 Pacific Island nations. What are we doing to address the outrage of Pacific Island nations that nuclear and other hazardous wastes are being transported through their local waters against their will, putting their people and environments at risk—yet Australian and New Zealand waters are respected and not violated?

For the Pacific Island nations, the ocean is their salvation and fisheries a fundamental foundation for their economies.

Because of that, I am greatly concerned with legislation before the Congress, the Andean Trade Preference Act (ATPA), and its ramifications on tuna trade in the Pacific, not only for my district of American Samoa, but for all the Island countries, as well as our friends in the Association of Southeast Asian Nations (ASEAN). This is bad legislation combined with bad policy, and I strongly oppose it. I have raised this repeatedly with the State Department, from Secretary of State Colin Powell on down, and I trust that our witnesses today will be able to give us some answers. To that effect, I would also hope that we get an update as to where the things stand with the region's new tuna regulatory regime—the Western and Central Pacific Tuna Convention—and how our South Pacific Tuna Treaty funding plays into the new framework.

Mr. Chairman, thank you very much for indulging me and I look forward to the testimony of our distinguished witnesses on the foregoing matters.

Mr. LEACH. Well, thank you very much, Eni. Before commencing let me note that in our audience today are 10 members of the yuan from Taiwan. If you all could stand and perhaps introduce yourselves, that would be very nice, as well as the representative from Taiwan. Could you each introduce yourself?

A PARTICIPANT.¹ (Off mike.)

Mr. LEACH. Well, you are an old, old friend, and you are very welcome, sir. Thank you.

A PARTICIPANT. (Off mike.)

Mr. LEACH. Yes. Welcome. I am so honored you are with us.

A PARTICIPANT. (Off mike.)

Mr. LEACH. Sure. Thank you.

A PARTICIPANT. (Off mike.)

Mr. LEACH. Congratulations. Thank you, sir. Does anyone else want to introduce themselves? Please.

A PARTICIPANT. (Off mike.)

Mr. LEACH. Yes. Thank you.

A PARTICIPANT. (Off mike.)

Mr. LEACH. Thank you, sir.

A PARTICIPANT. (Off mike.)

Mr. LEACH. Welcome, and we are honored you are serving Taiwan.

A PARTICIPANT. (Off mike.)

Mr. LEACH. Thank you. And ma'am?

¹ See Appendix for listing of participants.

A PARTICIPANT. (Off mike.) I am a member of the Foreign Affairs Committee of our legislature.

Mr. LEACH. Excellent. And the representative from Taiwan, sir.

A PARTICIPANT. (Off mike.)

Mr. LEACH. And not your first trip to the till. Well, we are honored you are all with us, and we thank you very much.

In terms of the panel, unless there is another reason, I thought we would begin with Mr. Daley, Secretary Daley, and then Secretary West. And then, Mr. Short, if you would like to make a presentation, you are welcome, and then, of course, Mr. Osman.

Mr. FALEOMAVAEGA. Would the Chairman yield?

Mr. LEACH. Yes.

Mr. FALEOMAVAEGA. I, too, would like to offer my personal welcome to my dear friend and outstanding leader of the Taiwanese people here in Washington, DC. I always call him Ambassador because as far as I am concerned he is an Ambassador. Ambassador Chen, and the distinguished members of the Taiwan Parliament, I just want to let you know that we certainly have been supportive of your efforts, and keep that light burning as far as democracy is concerned in this important part of the world. I again offer my personal welcome to the Members of Parliament for their being here this morning. Thank you.

Mr. LEACH. Secretary Daley, please commence. And without objection all of your statements, if they are lengthier than you present, will be placed in the record, and you can proceed in any manner you see fit.

STATEMENT OF MATTHEW DALEY, DEPUTY ASSISTANT SECRETARY, BUREAU OF EAST ASIAN AND PACIFIC AFFAIRS, U.S. DEPARTMENT OF STATE

Mr. DALEY. Thank you, Mr. Chairman. I will avail myself of your kind offer and go with a somewhat abbreviated oral statement that I will try and keep down to 10 minutes. My colleague, Al Short, does not have a formal statement but will be available to answer any questions which the panel may have regarding the status of the compact negotiations.

Mr. Chairman, I would like to thank you first for the opportunity to meet with your Committee to discuss U.S. policy towards the Pacific Islands. This vast region does not often enjoy the same attention that other areas have experienced. The countries in this part of the world are mostly small, and they rarely generate news headlines. That said, as you yourself have noted, the United States fought a great war across the Pacific 60 years ago, and the anniversary of the landing on Guadalcanal by U.S. Marines is less than 3 weeks away.

We still have important interests in the region and the 12 independent nations that have emerged since 1962. These interests include regional stability and economic development, maintaining the pro-friendly Western outlook of the Pacific Island countries, and interests in the strategic air and sea lanes of the region. We are also encouraging economic reform and private sector development, and we are working to strengthen democracy and accountable development. As part of this we also promote sustainable development,

and we are cooperating with both individual countries and regional organizations on the environment.

In the wake of the events of September 11th, we have worked actively with Island countries to ensure that they are able to fulfill their own international commitments to deny potential terrorists the infrastructure and the transit points that they need to operate.

We are committed to strengthening our relations with the Pacific. Assistant Secretary Kelly has met repeatedly with Pacific Island representatives here and in New York. As you know, for the first time in years the Secretary of State attended the annual Pacific Night this year. Actually, he had planned to go last year, but the events of September 11th forced an adjustment in everybody's schedules. And we appreciate the fact that you, sir, and the Ranking Member of this Subcommittee also attended that function. Your continuing interest in the Pacific Island countries is deeply appreciated by the countries themselves and by the Administration.

The resources we deploy to advance U.S. interests in the Pacific outside of the assistance package for the freely associated states are narrowly focused. We maintain resident embassies in 6 of the 12 countries, but during the 1990s, as you have noted, sir, our public diplomacy presence and our aid missions have been substantially reduced or withdrawn. So we try to leverage the resources that are currently available. Peace Corps volunteers make a substantial contribution across the region. We work with the Pacific Island nations on environmental issues, the International Coral Reef Initiative and the South Pacific Environmental Program. My colleague, Ambassador Mary Beth West, will elaborate on this.

Through the Joint Commercial Commission at the East-West Center in Honolulu we sponsor conferences and workshops that have expanded trade and investment between the Pacific Islands and the United States. The East Asian and Pacific Affairs Bureau is considering how to give our Ambassadors in these countries that lack USAID programs or public diplomacy sections some modest levels of funding to support local projects in areas of democracy, human rights, and the environment.

Other countries have expanded their presence in the Pacific. Australia and New Zealand are major powers in the region with diplomatic missions in almost all of the independent Pacific countries and substantial assistance programs in many. China has become more active in the Pacific in the past decade, both in competition with Taiwan and in pursuit of trade and diplomatic interests, and it maintains an embassy in each country that has diplomatic relations with it.

Mr. Chairman, many of the Pacific Island countries face serious social and political challenges. All of the Pacific nations have sought to establish and nourish democracy, but it has not always produced stable or effective governments. Fiji restored constitutional democracy in 1997, but its elected government was deposed after armed ethnic Fijians took the cabinet hostage in parliament itself. A new election in 2000 failed to resolve the differences between the ethnic Fijian community or between them and the Indo-Fijian community.

Melanesia faces particularly difficult problems. Weak national identities, ineffective governments, and economic troubles have

been a volatile mix. The Solomon Islands government collapsed in ethnic violence in 2000. A new government took office after elections this year, but the country remains plagued by violence. On Bougainville, a 10-year insurgency against the government in Port Morsby was resolved by an autonomy agreement, and a peace-monitoring mission is supervising a weapons decommissioning program that is part of that agreement.

Most of the Island nations have few natural resources on which to base economic development and face pressures from growing populations. One response has been outward migration. Many citizens of Pacific Island states have gone abroad, particularly to New Zealand and to Australia. There are, for example, more Tongans and Samoans abroad now than in their home countries.

The Pacific Island states have expressed strong support for the U.S. war on terrorism, but many lack the natural resource and technical expertise base to address this problem. Many of the countries are served by U.S. air carriers or have direct flights to the United States. Senior legal law enforcement and financial regulatory authorities representing 14 of the Island state members of the Pacific Islands Forum attended a regional counterterrorism workshop in Honolulu at the end of March. This was cosponsored by the Pacific Island Forum, the United States, Australia, and New Zealand.

Much work remains to be done. In the near future we plan to notify Congress of our intent to finance a project through the secretariat of the Pacific Islands Forum to help the Island nations move closer to compliance with their international obligations on counterterrorism. Let me interject that they have made a lot of progress in adhering to the various United Nations conventions on terrorism.

Mr. Chairman, by far the largest U.S. assistance undertaking in the Pacific Islands is represented by the Compacts of Free Association with the Federated States of Micronesia, the Republic of the Marshall Islands, and the Republic of Palau. The U.S. has provided over \$1.7 billion in assistance to the Federated States of Micronesia, over \$1.2 billion to the Marshall Islands, and in the case of Palau since 1994 our assistance has exceeded \$540 million.

The funding provisions of the Compact of Free Association for the Federated States of Micronesia and the Republic of the Marshall Islands expired at the end of 2001, and as you know, we are in the process of renegotiating the levels of compact assistance for both of these states, and we welcome your support in a new financial package that obviously is going to require congressional approval. The Compact of Free Association with Palau includes a permanent trust fund and does not expire.

I earlier referred to the Peace Corps. It continues to be one of our most successful programs in the Pacific. Today, there are approximately 300 Peace Corps volunteers that provide development assistance in education, public health, youth development, economic development, agriculture, rural community development, environmental resource protection, and NGO development.

In conclusion, Mr. Chairman, the United States believes that it is part of an integral Pacific family. In response to the \$1.5 billion assistance to date bilaterally to the freely associated states, we are

focusing on development and institution building, on environmental protection. We contribute millions of dollars to the Forum Fisheries Agency to ensure managed use of the region's rich tuna resources, and there is a wide range of other assistance programs, such as helping to enforce fishing regulations that the U.S. Coast Guard undertakes, civic assistance programs that DoD carries out, and the operation of a Tsunami warning system by the U.S. Weather Service. It is an extensive set of relationships. It is one on which we would like to build in the future. Thank you, Mr. Chairman.

[The prepared statement of Mr. Daley follows:]

PREPARED STATEMENT OF MATTHEW DALEY, DEPUTY ASSISTANT SECRETARY, BUREAU OF EAST ASIAN AND PACIFIC AFFAIRS, U.S. DEPARTMENT OF STATE

Mr. Chairman,

Thank you for the opportunity to meet with your Committee to discuss U.S. policy towards the Pacific islands. This is a vast region of the world, but sometimes neglected because of its great distance from the U.S., infrequent flight, and because the countries in this part of the world are mostly small and rarely generate news headlines. That said, the United States fought a great war across the Pacific 60 years ago—the 60th anniversary of the Marines' landing on Guadalcanal is less than three weeks away—and we still have important interests in the region.

As a Pacific nation itself, the U.S. has a long history of involvement in the Pacific islands, initially through our trading vessels and the activities of American missionaries. At the turn of the century, the U.S. acquired territory in the Pacific, including Hawaii, Guam and American Samoa. Later, our troops in World War II came to rely on the residents of some of these island nations for vital support. The Solomons, New Guinea, Peleliu, Truk, Yap, and other island locations have strong associations for U.S. servicemen who fought there during the Second World War. After the war, the U.S. took responsibility for the Trust Territory of the Pacific Islands under the United Nations.

Since 1962, when Samoa gained independence from New Zealand, most of the Pacific has passed from the political control of outsiders to independence. The Pacific now includes twelve independent nations. They range from Papua New Guinea with 4 million people and a substantial land mass to tiny Tuvalu, whose 10,000 people occupy nine atolls just west of the date line.

The U.S. greatly values the generally pro-U.S. stance of the Pacific island nations in foreign policy and we are committed to maintaining our involvement in the region. We count them among our most reliable supporters in the UN and we value their cooperation in a wide range of international organizations. We are members of some of the Pacific's principal regional bodies, including the Pacific Community and the South Pacific Regional Environmental Program. We are dialogue partners with the Pacific Islands Forum.

This Administration is committed to strengthening our engagement with the Pacific. Assistant Secretary Kelly traveled to New York this year to meet the Pacific island representatives to the UN. Secretary Powell attended the annual Pacific Night this year—the first time in years that a Secretary of State has done so. Members of Congress have maintained their attention to the Pacific, evidence by the attendance at Pacific Night by both the Chairman and Ranking Member of this Subcommittee. I know your continuing interest is appreciated by the Pacific island countries. I can say without hesitation that the Secretary and Assistant Secretary Kelly welcome this interest.

Our primary interests in the Pacific include promoting regional stability and economic development, and maintaining the friendly pro-western foreign policy outlook. The Pacific island countries occupy strategic air and sea-lanes. They also control access to important fishery resources that are important to U.S. industry. But above all, we have strong personal connections to the Pacific over the past century and a half.

To achieve our goals, we are encouraging economic reform and private sector development, we are working to strengthen democracy and accountable government, and we are promoting sustainable development, and cooperating on the environment. In the wake of the events of September 11, we have worked actively with island countries to ensure that they are able to fulfill their international commitments to deny potential terrorists the infrastructure they need to operate.

LIMITED U.S. RESOURCES

Today, we continue to have many interests in the Pacific, but only limited resources committed to the region outside of the assistance we provide to the Freely Associated States. We maintain resident embassies in six of the 12 countries. During the past 10 years the U.S. Public Diplomacy presence and USAID missions have been withdrawn. In some countries, Peace Corps volunteers provide the only full-time presence. The East Asia and Pacific Affairs Bureau is considering how to give our Ambassadors in countries without USAID programs or Public Diplomacy sections modest funding to support local projects in areas like democracy, human rights and the environment. Our goal is to give our Ambassadors the flexibility to put to use their unique understanding of local conditions.

The U.S. tries to leverage the resources we have available. Peace Corps Volunteers make substantial contributions across the region. We work with the Pacific Islands on environmental issues, including continuing support for the International Coral Reef Initiative (ICRI), and our support for, and participation in, the South Pacific Regional Environment Programme based in Samoa. Through the Joint Commercial Commission at the East-West Center in Honolulu, established in 1993 to promote trade and investment between the U.S. and independent Pacific island nations, we sponsor workshops and conferences that have expanded trade and investment between the Pacific Islands and the U.S.

Other countries have a more active presence in the Pacific. Australia and New Zealand are the region's major powers. They have diplomatic missions in almost all of the independent Pacific countries and substantial assistance programs in many. In 2001, Australian development assistance to the Pacific totaled \$282 million; that of New Zealand \$52 million. China has become much more active in the Pacific over the past decade, both in competition with Taiwan and in pursuit of trade and diplomatic interests. At this time, 8 of the Pacific island nations have full diplomatic relations with Beijing and 4 with Taipei. Both Taiwan and China have offered substantial assistance to Pacific island countries in recent years.

TROUBLES IN PARADISE

Many of the Pacific island nations face serious social and political challenges. All of the Pacific nations have sought to establish and nourish a form of democracy they believe best suited to local conditions, but it has not always produced stable or effective governments. Fiji restored constitutional democracy in 1997 but its elected government was deposed after armed ethnic Fijians took the cabinet hostage in Parliament. A new election in 2000 failed to resolve the differences within the ethnic Fijian community or between them and the Indo-Fijians. Tonga's constitution reserves most power for the king and a small number of nobles. A populist movement seeks more democracy.

The countries of Melanesia have faced particularly difficult problems. Strong clan loyalties, a weak sense of national identity, weak governments and economic troubles have been a volatile mix. The Solomon Islands government collapsed in ethnic violence in 2000. A new government took office after elections this year but the country remains plagued by violence. The same conditions exist in Vanuatu. On Bougainville, a ten-year insurgency against the Papua New Guinea authorities was recently resolved by an agreement that will provide substantial autonomy to the people of Bougainville. A peace-monitoring mission is supervising a weapons decommissioning program that is part of the agreement. Papua New Guinea's ongoing election has led to about 25 deaths so far as 2,900 candidates compete for 109 seats.

Most of the island nations have few natural resources on which to base economic development and face pressures from growing populations. Increasing urbanization has brought many people to towns and cities—often with no jobs. This has led to increased crime and the breakdown of traditional society. The Asian Development Bank has suggested that 1–2% growth is the best these states can hope to achieve—implying declining per-capita incomes. Papua New Guinea and Fiji have real economic potential, but mismanagement in PNG and ethnic tensions in Fiji have limited their prospects.

One response has been outward migration. Many citizens of the Pacific island states have migrated abroad, particularly to New Zealand and Australia. There are more Tongans abroad now than in Tonga. The same is true of Samoa. Many Kiribati (KIR-ee-baas) men now work as merchant seamen, sending home remittances.

AIDS is a growing problem in the Pacific, placing additional burdens on already-strained social resources. Papua New Guinea faces an HIV/AIDS problem that one recent study suggests could match those in Southern Africa.

COUNTER-TERRORISM

The Pacific island states have expressed strong support for the U.S. war on terrorism. They have indicated a desire to support the U.S. more effectively, but many do not have the resources or technical expertise to do so. Many of these countries are served by U.S. air carriers or have direct flights to the U.S. Senior legal, law enforcement, and financial regulatory officials representing 14 island state members of the Pacific Islands Forum (12 independent countries and the self-governing New Zealand dependencies of the Cook Islands and Niue) attended the Pacific Island Regional Counter-terrorism (CT) Workshop in Honolulu at the end of March. Legal and law enforcement experts from Australia, New Zealand, and the United States have been working with their island counterparts to improve their border enforcement capabilities and legal infrastructure. Much work remains to be done. In the near future we plan to notify Congress of our intent to finance a project through the Secretariat of the Pacific Islands Forum to help the islands move closer to compliance with their international CT obligations. The project will focus on enacting and implementing standard legal provisions across the Pacific to facilitate regional law enforcement cooperation and compliance with UNSCR 1373 and the Convention on Transnational Organized Crime.

TRADE ISSUES: JCC, MARKET ACCESS

The economic prosperity of our citizens is a shared goal of the U.S. and all its Pacific island partners. We have been pleased to work closely on issues of market access, trade promotion and WTO accession. Fiji, Papua New Guinea and Solomon Islands are members of the WTO. Both Tonga and Samoa are pursuing WTO membership.

We are particularly pleased by the progress the Joint Commercial Commission (JCC) has made in its primary mission, identifying and implementing ways for governments to facilitate private sector trade and investment between the U.S. and the island states of the Pacific. The JCC has also undertaken some projects of practical use to the Pacific Island nations, such as establishing a database of information and commercial contacts of interest to potential exporters in island countries.

FREELY ASSOCIATED STATES

By far the largest U.S. aid undertaking in the Pacific Islands is represented by the Compacts of Free Association with the Federated States of Micronesia, the Republic of the Marshall Islands and the Republic of Palau. The U.S. has provided over \$1.5 billion in assistance to the Federated States of Micronesia, and over \$1.1 billion to the Republic of the Marshall Islands between the 1986 inauguration of Compact funding and 1999. In both cases, approximately 78 percent of U.S. assistance is made up of direct financial payment into the two countries' treasuries as budget support. The remaining 22 percent is in the form of various U.S. federal programs that these two countries are eligible to participate in. In the case of Palau, assistance since 1994 has exceeded \$540 million.

The current funding provisions of the Compact of Free Association for the Federated States of Micronesia and the Republic of the Marshall Islands will expire at the end of fiscal year 2003 unless otherwise extended by the Congress. The U.S. is in the process of renegotiating terms for continued Compact assistance to both these states and we welcome your support for the new financial package that will require Congressional approval. The funding provisions of the Compact of Free Association with Palau include a permanent trust fund and do not expire.

PEACE CORPS

The Peace Corps continues to be one of the most successful programs in the Pacific. Today approximately 300 Peace Corps volunteers are serving in this vast and diverse region providing development assistance in education, public health, youth development, economic development, agriculture, rural community development, environmental resource development and protection, and NGO development and strengthening.

As we enter the 21st century, Peace Corps programs in the Pacific have taken a new direction in the form of the "Pacific Initiative"—a collaboration among Peace Corps and its regional and national partners in development focused specifically on programs to promote responsible management of the marine and land-based environment, and the development of island youth. The expanded collaboration will allow for maximal use of resources and new levels of program impact, sustainability and mutual understanding. Peace Corps and UNESCO have sponsored national Youth Workshops in 15 participating countries, helping to produce direct participa-

tion by youth in the formulation of national youth policies. The South Pacific Regional Environment Programme (SPREP) and the Peace Corps are working together on a UNDP-sponsored, SPREP-managed project, "Capacity Building for Environmental Management in the Pacific," where Peace Corps volunteers work alongside environmental counterparts in the public, private and NGO sectors. "Pacific Initiative" 2000 projects include collaboration with the University of the South Pacific to establish satellite-based distance education; with the University of the South Pacific Alafua Campus and the FAO to launch a "Future Farmers of the Pacific" organization to create a network of after-school and community based agricultural careers for students; and with the Foundation for the Peoples of the South Pacific/International to participate in their Coastal Marine Aqua-Culture Project.

THE ENVIRONMENT

My colleague Mary Beth West from the Bureau of Oceans and International Environmental Scientific Affairs will address environmental and fisheries issues in the Pacific in more detail.

CONCLUSION

The United States is an integral part of the Pacific family. In addition to over \$1.5 billion to-date in bilateral assistance to the Freely Associated States, the U.S. is engaged in limited development/institution building, environmental protection and contributing millions of dollars to the Forum Fisheries Agency to ensure managed exploitation of the region's rich tuna resources. There is a wide range of other assistance not quantified in this total, such as enforcement of fishing regulations by the U.S. Coast Guard, civic assistance programs by the U.S. military, operation of a Tsunami Warning System by the U.S. Weather Service, and other programs. This is an extensive level of engagement and one which we would like to continue and build upon.

Mr. LEACH. Thank you, Secretary Daley. Secretary West.

STATEMENT OF MARY BETH WEST, DEPUTY ASSISTANT SECRETARY, BUREAU OF OCEANS AND INTERNATIONAL ENVIRONMENTAL SCIENTIFIC AFFAIRS, U.S. DEPARTMENT OF STATE

Ms. WEST. Mr. Chairman and Members of the Committee, thank you for inviting me here today to discuss the environmental issues facing the Pacific region and the approach the Bush Administration is taking to address those issues.

The United States and the Pacific Island states have a strong and vibrant cooperative relationship on natural resources and environmental issues, and I appreciate the opportunity to describe several of the key components of that relationship. Because I have personally spent a lot of time over the last 2 years in the South Pacific on fisheries issues, let me start by addressing the fisheries component of that relationship.

Tuna is sometimes referred to as the petroleum of the Pacific because of its economic importance to the countries of the region. Fisheries are important as a source of income from licensing fees, as a source of food and jobs for citizens, and as a source of opportunities for economic growth and development.

Since 1998 the principal component of the U.S. Pacific Island fisheries relationship has been the Multilateral Treaty on Fisheries between the Governments of Certain Pacific Island States and the Government of the United States, an agreement that we call for short the South Pacific Tuna Treaty. This treaty provides access for the U.S. tuna industry to fish in the vast areas of the western and central Pacific Ocean, including the exclusive economic zones of several of the Pacific Island states, subject to certain conditions. Operations under the treaty were extended in 1993 for 10 years

until June of 2003, and just recently the United States and the Pacific Island parties concluded a further extension for an additional 10-year period to June 14, 2013.

This treaty provides considerable economic benefit to both the United States and the Pacific Island parties. For us, the tuna harvested by vessels in the treaty area has a landed value of approximately \$100 million to \$150 million annually. Nearly all of the fish is landed in American Samoa and processed in two U.S. canneries there. As the tuna moves through the processing and distribution process, its total contribution to the U.S. economy may be two to three times the landed value, between \$250 million and \$400 million annually. In exchange for this valuable resource, the U.S. industry pays a licensing fee of \$4 million, which will actually decrease under the new agreement because fewer U.S. vessels will be operating in the area. Under an associated economic assistance agreement the U.S. currently provides \$14 million annually, a figure that will increase under the new agreement to \$18 million after 2003 based on increased assistance needs in the area.

While these fishery resources are renewable, they are also subject to depletion if not properly managed and conserved. Recognizing that international cooperation was necessary to ensure sustainable fisheries for the long run, the Pacific Island states, along with the United States and other distant water-fishing states, in September of 2000 concluded a multilateral convention to conserve and manage the highly migratory stocks in the region. We are now actively engaged in the preparatory process, developing the rules of procedure, the scientific processes, and other things that need to be done to bring the treaty into force.

Turning to broader environmental issues, we actively engage with the Pacific Island states through the South Pacific Regional Environment Program, or SPREP. Through SPREP the countries of the regions are coordinating strategies for implementation of global programs and agreements, such as the Global Program of Action for the Protection of the Marine Environment from land-based sources of pollution, the International Coral Reef Initiative, and the Montreal Protocol.

SPREP has proved to be an extremely valuable forum for the formation of partnerships to protect the environment of the region. Thus, SPREP provides the United States a good opportunity both to influence regional Pacific environmental policies and to encourage coordinated approaches on environmental and sustainable development issues.

Finally, let me mention two other areas in which we are working closely with the Pacific Island states. One involves coral reefs. The United States has sponsored numerous programs directed at the conservation of Pacific reefs, including sponsorship of the International Marine Life Alliance in its efforts to reform reef species trade in Kiribati and Vanuatu and support for Reef Check in providing local communities with the management tools necessary to save reefs. Much of our support for the UNEP Regional Seas Coral Program and for IUCN coral and marine protected area activity is targeted in the Pacific.

Finally, the United States is working closely with Pacific Island states, as we are with many other developing states, on climate

change. For example, NOAA assists the Global Climate Observation System effort in the Pacific Islands with training and infrastructure support, capacity building among meteorologists to improve predictions, and for other purposes. In addition, the United States will be working with Australia in a newly formed Climate Action Partnership to build capacity in the Pacific Island region for climate monitoring and climate-related risk management. A workshop will be held in Fiji later this year to increase understanding of regional needs and to do some training.

USAID and the Peace Corps have also set up an innovative partnership in integrated coastal management to help build capacity to manage coastal resources using local and U.S. expertise.

In conclusion, Mr. Chairman, the Bush Administration is committed to working bilaterally and multilaterally to help Pacific Island developing countries address their environmental and development challenges. The U.S. has long-standing interests and special relationships in the region, and we are committed to remaining engaged to see those challenges through. Thank you, Mr. Chairman, and I would be happy to answer questions.

[The prepared statement of Ms. West follows:]

PREPARED STATEMENT OF MARY BETH WEST, DEPUTY ASSISTANT SECRETARY, BUREAU OF OCEANS AND INTERNATIONAL ENVIRONMENTAL SCIENTIFIC AFFAIRS, U.S. DEPARTMENT OF STATE

INTRODUCTION

Thank you, Mr. Chairman, for inviting me to testify today on the environmental issues facing the Pacific region and the approach the Bush Administration is taking to address those issues. I would first like to address the fisheries component of our relationship with the Pacific Island Nations. The highly productive and valuable fish stocks of the central and western Pacific Ocean are viewed by many of the Pacific Island States as among their most valuable natural resources, providing income from licensing fees, food and jobs for their citizens, and opportunities for future economic growth and development. In fact, tuna is sometimes referred to as the "Petroleum of the Pacific" because of its economic importance to the countries of the region.

While these fishery resources are renewable, they are also subject to depletion if not properly managed and conserved to ensure their sustainability. For this, international cooperation is essential and the Pacific Islands and the United States have worked cooperatively for many years both to share the economic benefits generated by these resources and to ensure their health for future generations. This involves significant cooperation at both the political and economic levels, but also includes such additional components as cooperation on scientific research; fisheries monitoring, control and surveillance; and environmental policy and related fields.

MULTILATERAL TREATY ON FISHERIES (A.K.A. SOUTH PACIFIC TUNA TREATY)

The principal component of this relationship is the Multilateral Treaty on Fisheries between the Government of Certain Pacific Island States and the Government of the United States. Under this Treaty, U.S. tuna fishing vessels gain access to fish in vast areas of the western and central Pacific Ocean (subject to certain conditions), including the exclusive economic zones of several Pacific Island States. In addition to the United States, the Parties to the Treaty include the 16 States of the South Pacific Forum Fisheries Agency ("FFA"): Australia, Cook Islands, Federated States of Micronesia, Fiji, Republic of Kiribati, Republic of the Marshall Islands, Republic of Nauru, New Zealand, Niue, Republic of Palau, Papua New Guinea, Solomon Islands, Kingdom of Tonga, Tuvalu, Republic of Vanuatu and Samoa.

The Treaty entered into force on June 15, 1988. While the Treaty itself does not expire, the operational provisions were originally designed for a five-year period. In 1993, the operation of the Treaty was extended for 10 years, until June 14, 2003. Just recently, the United States and the Pacific Island Parties concluded negotiations to extend the operation of the Treaty for an additional 10-year period, through June 14, 2013.

The Treaty provides considerable economic benefit to the United States and to the Pacific Island Parties. The tuna harvested by U.S. vessels operating in the Treaty Area has a landed value (the price paid to the fishermen) of between \$100 to \$150 million annually. Nearly all of this fish is landed in American Samoa and processed in two U.S. canneries located there. These canneries are the largest employers in American Samoa providing more than 80 percent of the private sector employment in that territory. Moreover, the value of the tuna increases as it moves through the processing and distribution chain so that its total contribution to the U.S. economy may be two to three times the landed value, or between \$250 to \$400 million annually.

In exchange for access to this valuable resource, the U.S. industry currently pays \$4 million per year for license fees to the Pacific Island Parties to the Treaty. In addition, the United States currently provides \$14 million annually to the Pacific Island States under an associated Economic Assistance Agreement. Under the revised agreement, the U.S. industry payment will be \$3 million annually, reflecting a decrease in the number of U.S. vessels operating under the Treaty. The funds paid by the U.S. Government will increase from \$14 million to \$18 million annually, reflecting an inflation adjustment and increased assistance needs over the 10-year period since the last extension.

WESTERN AND CENTRAL PACIFIC FISHERIES CONVENTION

The relationship between the United States and the Pacific Island States established and developed over the past fourteen years under the Tuna Treaty has yielded benefits in other related areas. One important example is the negotiations to establish a Western and Central Pacific Fisheries Commission (WCPFC). These negotiations, conducted over a period of several years, resulted in the adoption of a Convention text in September 2000. The United States participated in the negotiations along with twenty-four other states and Taiwan, representing virtually all the coastal states and major distant-water fishing states and fishing entities operating in the region.

The area covered by this Convention encompasses the last major area of the world's oceans not covered by a regional management regime for tunas and other highly migratory species. This region produces more than half the world's annual tuna catch, with an annual landed value of between \$1.5 to \$2 billion.

The distinction between the WCPF Convention and the Tuna Treaty is that the Tuna Treaty is primarily an access arrangement for U.S. vessels, while the new Convention will establish the conservation and management measures to be adhered to by all countries and fishing entities with vessels operating in the region. Our longstanding relationship with the Pacific Island States allowed us to work closely with them (and the other negotiating parties) during the negotiating process and to adopt a text that supports our mutual interests in the effective long-term conservation and management of the region's valuable fishery resources.

The United States is participating actively in the WCPFC Preparatory Process, established to prepare administratively for the entry into force of the Convention and the creation of the new Western and Central Pacific Fisheries Commission. The Third Session of the Preparatory Conference will be held this November in Manila, Philippines.

One key issue that the United States hopes to see addressed under this new Convention is the issue of excess fishing capacity—the prospect of too many vessels catching too much fish. While the stocks of tuna in the western and central Pacific are not currently considered to be over-fished, excess capacity complicates adoption and implementation of effective conservation and management measures and has significant implications for the economic viability of these fisheries in the longer term.

Together, the South Pacific Tuna Treaty and the Western and Central Pacific Fisheries Convention form a strong foundation for U.S. involvement and cooperation with the states of the western and central Pacific. Of course, this work is based in large part on the operation of the U.S. tuna fleet in the region and their efforts over many years to strengthen ties with their commercial counterparts and governments throughout the area. The industry maintains commercial ties throughout the region and, in fact, has worked actively to promote the development of domestic industries in those locations where such activities are economically viable. As a result, the fisheries sector represents perhaps the largest single source of political, economic and commercial cooperation between the United States and the Island States of the Western and Central Pacific Ocean.

SOUTH PACIFIC REGIONAL ENVIRONMENT PROGRAM (SPREP) AGREEMENT

The South Pacific Regional Environment Program (SPREP) has existed for nearly fifteen years to protect and improve the South Pacific environment and to ensure sustainable development in that area. The U.S. territories of American Samoa, Guam and the Commonwealth of the Northern Mariana Islands, are located within the SPREP area. The State of Hawaii is also closely linked to the Pacific basin by geography, history, economics and politics. SPREP provides for increased cooperation among the United States, Australia, New Zealand, France and twenty-two island States and territories of the South Pacific area in addressing issues affecting environment and development in the region.

SPREP is the best opportunity for us to both influence regional Pacific environmental policies and encourage coordinated approaches on environmental and sustainable development issues. With greater commercial development, the region's unique wildlife and plants are at risk. With a decreased USAID presence in the region, U.S. participation in SPREP sends a strong signal that the Pacific region remains a priority for us.

SPREP serves its members in managing regional projects, on topics such as coral reefs, invasive species, marine pollution and emergency response strategies, environmental impact assessment, climate change and the impacts of El Nino, regional coordination of meteorological services, capacity building, and information exchange, among others. In addition, SPREP coordinates the development of regional strategies for implementation of global programs and agreements, including the Framework Convention on Climate Change, the Global Program of Action for the Protection of the Marine Environment, and the International Coral Reef Initiative. In this, SPREP has proven to be an extremely valuable forum in forming partnerships both regionally and individually with the Pacific islands to protect the environment of the Pacific region.

SPREP has also played a useful role in assisting Pacific Island countries in implementing regional and global environmental agreements. At present, SPREP is coordinating the second phase of implementation of the Montreal Protocol (with all countries maintaining their current phase-outs of ozone-depleting substances and remaining in compliance), which has been ratified by all Pacific Island Countries constitutionally able to do so. SPREP is also proposing a regional approach to the International Convention for the Prevention of Pollution from Ships (MARPOL 73/78) which would feature elements similar to those of the Wider Caribbean Initiative on Ship-Generated Wastes (WCISW), which takes into account the unique challenges faced by geographically-isolated small island states.

CORAL REEFS

The management and conservation of coral reef ecosystems are also areas where we must continue to provide assistance. A recent study of reefs in South East Asia estimates the total annual net benefit of sustainable coral reef fisheries across Southeast Asia at \$2.4 billion. This significant amount does not include tourism or other benefits from reefs. A square kilometer of reef in Indonesia or the Philippines in a tourist destination can generate up to \$270,000 annually. Yet we continue to see a decline in reefs throughout the region. To halt this trend, the U.S. Agency for International Development (USAID), the Department of State, and other agencies have been leading supporters of international programs to protect coral reef ecosystems, and have sponsored numerous programs directed at conservation of Pacific reefs.

In 2001, for example, the Department of State, in conjunction with USAID, sponsored the International Marine Life Alliance in its efforts to reform reef species trade in Indonesia, Vietnam, Kiribati, Vanuatu, and Hong Kong. The Department of State, NOAA and USAID successfully led an effort within the Asia Pacific Economic Forum to adopt a resolution addressing destructive fishing and the use of cyanide in the live reef fish trade. We worked through the World Wildlife Fund (WWF), the University of Rhode Island and Tetra Tech, Inc. to improve marine conservation and coastal management programs in Indonesia and the Philippines. Throughout the region, we have provided Reef Check with the resources to provide local communities with the management tools necessary to save their reefs. Much of our global support to the UNEP Regional Seas Programs for coral work and to the World Conservation Union (IUCN) for coral and marine protected area activity is spent in the Pacific. We hope to find the resources to continue these types of programs in the future.

CLIMATE CHANGE

The United States is also working closely with Pacific Island Nations, as we are with many other developing nations, on the climate change issue. For example, the National Oceanic and Atmospheric Administration (NOAA) assists the overall Global Climate Observation System (GCOS) effort in the Pacific Islands with training and infrastructure support, capacity-building among meteorologists in the region to improve predictions and related climate change risk management and adaptation strategic planning. In addition, the U.S. will be collaborating under the Climate Action Partnership, a new arrangement with Australia, to cooperate with developing countries in the Pacific Island region to build their capacity to address climate change. Initial projects under this activity will establish and maintain robust climate monitoring and data management systems in the Pacific, and will assist Pacific Island countries in accessing and applying climate and oceanographic information more effectively in climate-related risk management and adaptation to climate change. Training and a joint workshop will be held in Fiji later this year to increase understanding of regional needs. USAID supports coastal zone management-related programs in the Pacific Islands through non-governmental organizations such as The Nature Conservancy, Wildlife Conservation Society, and the International Marine Life Alliance. USAID and the Peace Corps have initiated an innovative, "Partnership in Integrated Coastal Management in the Pacific," to use local and U.S. expertise to build the capacity of Pacific Island states to manage coastal resources. Previous U.S. efforts in the region include the U.S. climate change Country Studies Program's support for the Federated States of Micronesia's effort to identify means of adaptation to climate change in the coastal zone, agriculture, and forest sectors.

CONCLUSION

The Bush Administration is committed to working bilaterally and multilaterally to help the Pacific Island developing countries address their environmental and developmental challenges. The United States has long-standing interests and special relationships in the region, and we are committed to remaining engaged to see these challenges through.

Mr. LEACH. Well, thank you, Secretary West. Before turning to Dr. Osman, the only private sector witness, I think there ought to be an introduction. Dr. Osman is the Bank of Hawaii Senior Fellow and Chair for Pacific Economics at the East-West Center where his work focuses on Pacific economies and the assessment of economic and financial risks and market potential. Previously, Dr. Osman was Vice President and International Economist for the Bank of Hawaii.

Dr. Osman was born in Afghanistan. He became a U.S. citizen in 1986. He earned his bachelor of science degree in economics from Kabul University and his Ph.D. from the University of Hawaii. In addition to lecturing on economics and finance at the University of Hawaii and Hawaii Pacific University, Dr. Osman has served as economic adviser to the Office of the President of the Republic of Palau.

Before asking you to proceed, let me also say that Mr. Flake and Ms. Watson and I are in a very unusual situation. There is a globalism of economics and trade that we hear a lot about, but what we have before us in this room today are some analogies to globalism of political talent. Dr. Osman, coming from Afghanistan, becoming a U.S. citizen, becoming an expert on the Pacific, is very symbolic of our age. Our panel—we have Dr. Faleomavaega, who is a doctor of politics—and then in the room we have a Taiwanese yuan member who is a citizen of Seattle. It is extraordinary. And, in fact, as we think of our country, Sun Yet Sen once lived here, as did Kim Dae Jung. In our presidencies we have had two American Presidents that have lived in the region, not exactly the Islands, although one kind of did. Herbert Hoover lived in Australia

as well as China. George H.W. Bush lived in China. That is an extraordinary globalization of living and service, and it presents a truly unique set of professionals that we are very appreciative of.

In any regard, Dr. Osman is the symbolic point person for globalization of political talent. Would you proceed?

Excuse me. Ms. Watson would like to make an opening statement. I apologize.

Ms. WATSON. Not necessarily an opening statement but more in terms of a query. Thank you, Mr. Chairman and Ambassador West. I was listening very intently to your statement. I will read it again. It is in front of me. And you are absolutely right about the fisheries and the fishing industry in that area. However, I would estimate it to be higher. In Micronesia I think it runs somewhere around two to \$300 million annually. However, in the negotiations the Federated States of Micronesia come out on the short end. I will defer to Mr. Short a little later on, too. Apparently in their last negotiations they only receive in revenue somewhere around \$18 million annually. So there seems to be a big rip-off.

I would hope that we could better utilize this aspect of the economy to benefit Micronesia, and I will raise this a little later. But I think it is very, very important that while we are extending the compact that we help local government better negotiate so they can have a source of income that will go into perpetuity, unending, and really get the maximum value. I do not want to overfish in the area, but I surely want to get the economic stimulus from that fishing industry.

So I just throw that out, and I do not know if you want to comment on that. Maybe I will wait.

Mr. LEACH. I think it would be appropriate if we waited for the questioning, Ms. Watson, but thank you for your statement. Mr. Flake, did you want to say anything? Dr. Osman, you may proceed.

**STATEMENT OF WALI M. OSMAN, BANK OF HAWAII SENIOR
FELLOW FOR PACIFIC ECONOMIES, EAST-WEST CENTER**

Mr. OSMAN. With pleasure. I would like to congratulate the Chair and the Subcommittee for holding this hearing on U.S. interests in the Pacific, a subject that receives all too little attention in comparison to the region's governance of vast ocean territories. I want to thank the Subcommittee for inviting me to testify.

I have more than 20 years of experience with the Islands, mainly as an economist for the Bank of Hawaii. After Bank of Hawaii sold the South Pacific and Asia operations, I moved to the East-West Center where, as Bank of Hawaii Senior Fellow for Pacific Economies, I work on the economies of the Islands in conjunction with the center's research program and its Pacific Island development program. Today, however, the views and recommendations I will express here are personal and not institutional ones.

To many Americans, Pacific either means the larger countries around the Asian rim or the theater of some of the epic battles of World War II. Either way, the 10,000 or so islands are either ignored or perceived as "Micheneresque tropical paradises" with little strategic and even less economic value to the nation. In the Islands themselves goodwill toward the United States as a liberator during World War II is waning since a new generation of leaders with no

personal memories of the war has taken over. In the United States also the recollection of heroic battles is fading away. The Western Pacific's ties with the United States have evolved from U.N. trusteeship to free association and independence. In the South Pacific, the United States has made little concerted diplomatic or political efforts, principally taking a back seat to Australia and New Zealand and France.

Underlying America's slow but steady disengagement since the 1950s has been ambivalence about the strategic and economic value of the Pacific Island economies to the national interest. Even recommendations from congressional Committees have largely been ignored. In a hearing in 1991, the House Subcommittee on Asian and Pacific Affairs observed that had the measures it recommended earlier been adopted, they "would go a long way toward reassuring the next generation of Island leaders that the long era of benign neglect of their region by the United States has finally ended."

President George W.H. Bush, who favored a sharper focus on foreign policy and had personal experience in the Pacific during World War II, was sympathetic to the Pacific Islands. In October 1990, he held a summit at the East-West Center in Honolulu where for the first time an American President met with the leaders of 13 Pacific nations. President Bush announced the creation of a Joint Commercial Commission (JCC) "to identify and address commercial opportunities and trade concerns." He outlined funding for the Pacific Island states through the Overseas Private Investment Corporation, greater assistance through the U.S. Agency for International Development, and new programs for educational exchanges with the region. With limited follow-through, the JCC initiative has remained largely that, an initiative. In fact, one State Department official described it as having only "one moving part," the East-West Center, which continues to sponsor JCC meetings.

Consistent with the view that only the big players matter, current analysis of the region places the Pacific Island nations in the category of those with least impact on U.S. security. Further obscuring the importance of the Pacific Ocean and the Pacific Island economies has been the understandable preoccupation of U.S. policy-makers with trade deficits with Asia, particularly Japan and now China.

Ignored in this view of national security consideration is the reality that strategic security cannot easily or conveniently be separated from economic security. Because the Pacific Ocean is the military and commercial link between the United States and the Asian rim, it is all the more difficult here to separate strategic interests from economic interests. The small nations in the Pacific can be a source of trouble for American security concerns and the peaceful conduct of trade, either by their own actions or because of those of outside entities. A presumption that the United States has little or no significant interest in the security and economic welfare of the Pacific countries is potentially dangerous. Reports that some \$70 billion in illicit Russian funds were laundered through Nauru or the very recent stories that two of the September 11 hijackers may have entered the United States via Fiji are only some illustrations of the potential of the region to affect our security and economic interests.

Excluding Australia, New Zealand, and Hawaii, there are 21 economies in the Pacific with a population of 7.5 million. They have a total gross domestic product of \$18 billion annually, less than half of Hawaii's. Per capita GDP ranges from \$32,857 in Nauru, a special case, to \$782 in Papua and New Guinea and averages less than \$2,500 for the region. These are open economies whose trade deficits have been sustained by infusions of external aid to their large public sectors. This has helped produce economies driven by consumption. A reflection of this is that the Pacific is one of the very few regions with which the United States has a trade surplus. Total U.S. exports to the Pacific in 2000 were \$401 million, and total imports were \$337 million.

In either regional or global context, the scattered islands are only the minuscule markets. However, because the Island states are located between the world's two largest and most dynamic regions, Asia-Pacific and North America, they can affect trade flows across the Pacific Ocean.

One-third of U.S. merchandise trade traverses the Pacific by both air and sea lanes. This is the largest single of the trade pie. This proportion will only grow in the years ahead as the relative weight of the Asian economies grows. These attributes, not mass and scale as in Asia's large economies, make the Pacific Islands important markets, however small.

Tranquility in the Pacific Islands is essential to the safe and efficient conduct of trade. For this reason we cannot ignore the Pacific, nor can we expect the past policies of heavy government-to-government assistance programs from donors such as Australia, New Zealand, and the United States to increase living standards and maintain requisite social and political stability.

I would argue that the region needs a cooperative, consistent, and reliable U.S. economic policy that gives much greater weight to market principles and democratic institutions. To help the Pacific Islands help themselves, the United States must pursue a policy of constructive engagement based on bi- and multilateral agreements that are fundamentally centered on market principles of investment and trade and democratic institutions. Expanding the productive capacities of the Pacific Islands will expand their purchasing power, which will increase the demand for American technology.

Along with increasing economic opportunities, U.S. involvement can help expand democratic institutions and values that promote open markets and freedom of choice. Most Pacific cultures are communal, but traditional institutions have with exceptions mixed successfully with modern democratic ones, especially in the Western Pacific where the United States has been engaged since the end of World War II. The enduring legacy of American involvement in the Western Pacific has been the firm establishment of principles of democratic governance, with regular competitive elections, free expression of views, and vibrant civil societies.

The Pacific Islands cannot attract capital and skills on the basis of criteria that apply to large economies. Physical isolation, great distances which raise transport costs, small markets, poor infrastructure, and stagnant to declining standards of living are their main comparative economic disadvantages. These economies cannot

compete with Asia-Pacific's large economies, where mass production, consumption, and distribution gains offset other disadvantages. The United States and other governments with links to Pacific Islands and a stake in their stability must conceive proactive policies to encourage flows that would not otherwise occur, no matter what the Islands do.

The United States needs a strategically focused, forward-looking, and cooperative economic policy for the Pacific Ocean. This policy should have three dimensions: a robust U.S. diplomatic presence, the creation of a new, formal, regional economic-cooperation program to expand American private sector engagement in the region while strengthening Island economies, and the coordination and support of the many existing federal and federally funded programs and facilities that collectively make up the apparatus to support American economic interests in the region.

I also believe the United States has a strong interest in working with and encouraging continued engagement by other friendly countries in the region, especially Australia, New Zealand, and Japan.

Mr. Chairman, I realize that the program I am recommending will cost money, and money has again become very tight in the wake of our reduced revenue stream and greater expenditures on the war on terror. I believe that an important part of the war on terrorism, whether in the Middle East and South Asia or in the Pacific Islands, involves a robust political presence, a longer-term strategy and vision of U.S. interests, and efforts to work collaboratively in government-to-government programs, private sector activities, and education. Many of the leaders have strong connections with the United States. As evidenced at the March meeting at the East-West Center of the Standing Committee of the Conference of Pacific Island Leaders, the Islands were deeply affected by the events of September 11 and want to assist our efforts in whatever way they can.

Many people are pessimistic about the Pacific's economic and political prospects. I like to think that I am a realistic optimist. The challenges are serious, but a relatively small American investment, if done according to a clear vision and in cooperation with allies in the Islands, can go a long way in strengthening our relations with the Pacific, protecting our security interests in the region, and moving forward with mutually beneficial economic relations.

Again, let me thank you for inviting me to testify and let me assure you that I or any of my colleagues at the East-West Center would be happy to share our expertise with you and the Committee staff. You have only to call upon us. Thank you.

[The prepared statement of Mr. Osman follows:]

PREPARED STATEMENT OF WALI M. OSMAN, BANK OF HAWAII SENIOR FELLOW FOR
PACIFIC ECONOMIES, EAST-WEST CENTER

EXECUTIVE SUMMARY

In either the global or regional context, the scattered Pacific Islands hardly constitute a major market for the United States. However, the island-states are located between the world's two largest and most dynamic economic regions, Asia-Pacific and the United States, and by virtue of their location assume their important role. Tranquility of the islands is critical to the safety and tranquility of the Pacific Ocean through which passes, by both air and sea lanes, 33 percent of two-way US

merchandise trade. This proportion will grow in the years ahead. Further, the islands of the tropical Pacific offer unique qualities primarily as tourist destinations, are in particular instances the sources of important commodities, control vast exclusive economic zones with their present uses and future potential and are sometimes pools of low-cost but eager labor.

As a part of the territory integral to US strategic and economic interests in both the short and long terms, the Pacific Ocean must be considered a special case. This means the United States must be willing to pay a small price to keep the Pacific Ocean peaceful and to help its small economies prosper. The capital needed to raise living standards in the Pacific island economies will not come to the region on the basis of criteria that apply to large economies. However, this is not a reason to withhold investment in the region if one's focus is on the longer term. The more the United States gets connected to the larger Pacific Rim countries via trade and investment, the more important it becomes to keep the Pacific Ocean economies prosperous and secure.

Self-sufficiency is not a practical goal for the majority of these economies. Instead, less spectacular but realizable goals are increased local productive capacity and self-reliance supported by direct and easy access to large markets both for selling and for recruiting capital and other resources. Forward-looking programs must take into account the rapid population growth rates in the Pacific Ocean which are among the world's highest. The Pacific Island economies should aim at staying afloat financially, slowing their population growth rates so they can stabilize their living standards and adjusting their communal structures to help make market mechanisms work. US policy should actively encourage trade with and investment in the islands, both among those with which we have close ties historically and those in the South and Southwest Pacific, where some of the best investment opportunities are to be found.

I would recommend that President Bush elevate the Joint Commercial Commission into a new, formal regional economic cooperation program exclusively for the United States and the region's economies to expand American business, institutional and intellectual interest in the region. This will require increased coordination and support of existing federal programs and new resources that collectively make up the apparatus to support American economic interests in the region.

I. INTRODUCTION

I want to congratulate the Chair and the Subcommittee for holding these hearing on U.S. interests in the Pacific, a subject that receives all too little attention in comparison to the region's governance of vast ocean territories and the rich land minerals base of some of its countries. I also want to thank the Subcommittee for inviting me to testify. I have more than two decades of experience with the islands, primarily as an economist for Bank of Hawaii, and I have traveled and studied the region extensively. After Bank of Hawaii sold its South Pacific and Asia operations, I moved to the East-West Center where, as Bank of Hawaii Senior Fellow for Pacific economies, I continue to work on the economic issues involving the islands in conjunction with the Center's Research Program and its special Pacific Island Development Program. Today, however, the views and recommendations I will express are personal and not institutional ones.

To many Americans, Pacific either means the large countries around the Asian rim or the theater of some of the epic battles of World War II. Either way, the 10,000 islands in Oceania today are either ignored or perceived as "Micheneresque tropical paradises,"¹ with little strategic and even less economic value to the United States. In the islands themselves, goodwill toward the United States as a liberator during WW II is waning since a new generation of leaders with no personal memories of the war has taken over. In the United States also the recollection of heroic battles is fading away. The Western Pacific's ties with the United States have evolved from UN trusteeship to free association and independence. In the South Pacific, the United States has made little concerted diplomatic or political efforts, principally taking a back seat to Australia, New Zealand, and France.

Underlying America's slow but steady disengagement since the 1950s has been ambivalence about the strategic and economic value of the Pacific Island economies to the national interest. In the absence of a core understanding and consensus on what US interest in the Pacific Ocean is, even recommendations from Congressional committees on specific measures to increase American presence in the region have largely been ignored. In a hearing in 1991, the House Sub-Committee on Asian and

¹John C. Dorrance, *The United States and the Pacific Islands* (Washington, DC: Praeger, 1992), p. xv.

Pacific Affairs observed that had the measures it recommended earlier been adopted, they “would go a long way toward reassuring the next generation of island leaders that the long era of benign neglect of their region by the United States has finally ended.”²

President George W. H. Bush, who favored a much sharper focus on foreign policy and had personal experience in the Pacific during World War II, was sympathetic to the Pacific Islands and understood their desire to raise their standards of living. In October 1990, he held a summit at the East-West Center in Honolulu, where for the first time an American president met with the leaders of 13 Pacific nations. President Bush announced the creation of a Joint Commercial Commission (JCC) “to identify and address commercial opportunities and trade concerns.” He outlined special funding for the Pacific Island states through the Overseas Private Investment Corporation (OPIC), greater assistance through the US Agency for International Development (USAID), and new programs for educational exchanges with the region.³ With limited follow-through and budget cuts, the JCC initiative has remained largely that, an initiative. In fact, it has been described by one Department of State official as having only “one moving part,” the East-West Center, which continues to sponsor periodic JCC meetings.

Consistent with the view that only the big players matter, current analysis of the region typically places the Pacific Island nations in the category of those with least impact on US security. Further obscuring the importance of the Pacific Ocean and the Pacific Island economies has been the understandable preoccupation of US policy-makers with trade deficits with Asia, particularly Japan and now China.

Sometimes ignored in this view of national security considerations is the reality that strategic security cannot easily or conveniently be separated from economic security. And because the Pacific Ocean is the military and commercial link between the United States and the western Pacific rim countries, it is all the more difficult here to separate strategic interest from economic interest. The small nations in the Pacific Ocean can be a source of trouble for American security concerns and the peaceful conduct of trade, either by their own acts or because of those of outside entities. Stagnant or declining standards of living in the islands make their populations more convenient targets for disruptive influences. A presumption that the US has little or no significant interest in the security and economic welfare of the small Pacific countries is potentially dangerous. Reports that some \$70 billion in illicit Russian funds were laundered through Nauru or the very recent stories that two of the September 11 hijackers may have entered the United States via Fiji are only some illustrations of the potential of the region to affect our security and economic interests.

Excluding Australia, New Zealand and Hawaii, there are 21 economies (countries and territories) in the Pacific Ocean with a total population of 7.5 million. These have a combined gross domestic product (GDP) of \$18 billion annually, less than half of that of Hawaii. Per capita GDP ranges from \$32,857 in Nauru, a special case, to \$782 in Papua New Guinea and averages less than \$2,500 for the entire region. These are open economies, whose large trade deficits have been sustained by infusions of external aid to their overly large government sectors. This has helped produce economies driven by consumption. A reflection of this is that it is one of the very few regions with which the United States has a trade surplus. Most recent figures show total US exports to the Pacific Island economies in 2000 were \$401 million, and total imports \$337 million.⁴

In either regional or global context, the scattered islands are only the miniscule markets. However, because the island-states are located between the world's two largest and most dynamic economic regions, Asia-Pacific and North America, they can affect trade flows across the Pacific Ocean. Also, the islands of the tropical Pacific offer unique qualities primarily as tourist destinations, are in particular instances the sources of important commodities, control vast exclusive economic zones, and sometimes have pools of low-cost but eager labor. Together, these attributes, not mass and scale as in Asia's large economies, make the Pacific Islands important markets, however small.

The region's strategic and economic importance today lies less in its own resources and markets than in its geo-strategic position. One-third of US merchandise trade

²US Policy Toward the South Pacific: Implementation of the Honolulu Summit, Hearing and Markup before the US House of Representatives, Sub-Committee on Asian and Pacific Affairs, November 20, 1991, p. 1 (US Government Printing Office, Washington, DC, 1992).

³*The Summit of the United States and the Pacific Island Nations*, October 27, 1990 (Honolulu: The East-West Center), p. 9

⁴United States Pacific Command, *Asia-Pacific Economic Update*, January 2000, Appendix B (Key Indicators).

traverses the Pacific by both air and sea lanes. This proportion will only grow in the years ahead as the relative weight of the Asian economies continue to grow.

Tranquility in the Pacific Islands is essential to the safe and efficient conduct of this trade. For this reason, we cannot ignore the Pacific. Nor can we expect the past policies of heavy government-to-government assistance programs from donors such as Australia, New Zealand, and the United States to rapidly increase living standards and maintain requisite social and political stability.

I would argue that the region needs a cooperative, consistent and reliable economic US policy that gives much greater weight to market principles and democratic institutions. To help the Pacific islanders help themselves, the United States must pursue a policy of constructive engagement based on bi- and multilateral agreements that are fundamentally centered on market principles of investment and trade and on democratic institutions. Expanding the productive capacities of the Pacific Islands will expand their purchasing power which will, not incidentally, increase the demand for American products and technology.

Along with increasing economic opportunity, US involvement can help expand democratic institutions and values that promote open markets and freedom of choice. To a high degree the Pacific cultures remain communal, but traditional institutions have, with some exceptions, mixed successfully with modern democratic ones, especially in the Western Pacific where the United States has been engaged consistently since the end of World War II. The enduring legacy of US involvement in the Western Pacific has been the firm establishment of principles of democratic governance, with regular, competitive elections, free expression of views and vibrant civil societies.

French Pacific which covers three of the 21 markets, is also stable. But it took substantial financial commitments from France, especially in the last decade, to bring peace and tranquility to its overseas territories in the Pacific.

The more politically and economically unstable countries are in the South and Southwest Pacific. These are the main independent countries with some of the region's lowest standards of living. Political independence in this area was not accompanied by economic independence because the requisite institutions were not developed at the time of independence. Notable examples are Solomon Islands, Fiji, Papua New Guinea (PNG) and Vanuatu. Still, the Pacific Islands' openness as societies, their willingness to seek reconciliation of internal divisions, and their records on human rights are far superior to those of many developing countries, including many in Asia. The United States should support these attributes and help the islanders consolidate them in a time of considerable demographic, social and economic transition.

The Pacific Islands cannot attract capital on the basis of criteria that apply to much larger economies. Physical isolation, great distances which raise transport costs, small markets, poor infrastructure and stagnant to declining standards of living are their main comparative economic disadvantages. These economies cannot possibly compete for either capital or skills with Asia-Pacific's large economies where mass production, consumption and distribution gains offset other disadvantage. The United States, and other governments with links to Pacific Islands and a stake in their stability must conceive proactive policies to encourage flows that would not otherwise occur, no matter what the Island nations do.

Under-employed youth is one of the most serious looming problems in the region. In contrast to many Asian countries today, the youth population in the island region is growing rapidly, far more rapidly than the job count. Those seeking opportunities will seek to emigrate, while others frequently fall into a trap of prolonged unemployment and susceptibility to alcohol, drugs, and violent behavior. Proactive and innovative programs can create jobs and job mixes for island labor forces that are consistent with local traditions, labor force practices and expectations. While tourism is the most common and most promising source of income in the Pacific Islands, it is by no means the only one.

An example of the alternatives to tourism is the Japanese automotive loom assembly, Yazaki Samoa, in Apia, Samoa. A producer of automotive looms for American and Japanese-made vehicles assembled in Australia, it has been in operation for a decade now and employs 2,000 persons, a very significant proportion of Samoa's modern work force. The firm has worked hard to adapt a modern assembly facility to a culture that had no previous manufacturing history, work force or assembly line work discipline. Australia and New Zealand have regional economic cooperation and trade alliances which allow Pacific island products at preferential terms e.g. lower import fees to increase production capacities the island economies.

Whether or not American firms will be attracted to the small Pacific Island economies is much less certain. Given the obvious advantages of larger markets and economies of scale, enticing American firms, especially in assembly and manufac-

turing for export, is a challenge. Except for those involved in basic services such as banking and other financial services, business rarely find the Pacific profitable, primarily because of small markets, high costs and sometimes stringent local rules. But opportunities do exist, especially in the tourist sectors. Where the hotels go, other opportunities will follow. The profitable experiences of certain Hawaii companies such as Outrigger Hotels & Resorts throughout the Pacific and Chevron in Papua New Guinea speak well to the region's suitability as a market and neighborhood.

II. STRATEGIC INTEREST

US strategic interest in the Pacific has two traditional bases: denial of access to forces that might undermine peace and tranquility in the region, and US access to base facilities should the need arise. These defense interests have waned in the post-Cold War era, but the Navy and Air Force bases on Guam remain significant and may become even more so should forward facilities in Northeast Asia need to be relocated. The Kwajalein facility in the Republic of the Marshall Islands is also a highly valuable missile testing station. The United States has no military bases in the Federated States of Micronesia (FSM), Palau or the Commonwealth of the Northern Mariana Islands (CNMI), but its special relationships with these economies serve mutual interests by ensuring U.S. access and transportation rights while providing the island entities with access to US capital and technical expertise.

Besides Guam and CNMI, the Republic of Palau concluded a 50-year compact of free association with the United States in 1994. The Republic of the Marshall Islands (RMI) and FSM implemented their compacts of free association with the United States in 1986. The first financial package of the compact ended in 2001 with a 2-year grace period within which to negotiate a new financial package. The negotiations for the second financial package are now underway.

Our relations with the nations, territories and dependencies of the South and Southwest Pacific (excepting American Samoa, the only US territory south of the equator) include direct participation in some regional organizations.

III. ECONOMIC INTEREST

The Setting

The rhetoric of both metropolitan and island countries foresees a day in which the islands become fully self-supporting, viable economies, providing substantial incomes for their peoples with little outside public support. The realities today, and the realistic prospects for the near- and medium-term future, make this a very long-term and probably unattainable objective. Instead, less spectacular but realistic goals are increased local productive capacity and self-reliance supported by direct and easy access to large markets both for selling and for recruiting capital and other resources.

While emerging technologies may be helpful in certain ways, the severe natural and economic limitations of most of the Pacific Island economies will not disappear. Nor will market forces in the region's large economies change so dramatically in the future as to give the small Pacific Ocean markets comparative economic advantage vis-a-vis much larger Asian developing countries. Given these realities the island economies should aim at staying afloat financially, slowing their population growth rates so they can stabilize their living standards, and adjusting their communal structures to help make market mechanisms work.

Programs that help the islands become more self-reliant should be foremost on the agenda. For example, 80 percent of world's pelagic fish are harvested in the Pacific.⁵ The Western Pacific tuna fishery produces some of the world's highest value catch, and US, Chinese, Taiwanese, Japanese and Korean fleets all fish in these waters. However, most of the gain in value added from fish processing accrues to foreign countries, such as Thailand and some Latin American countries. To increase the value added to the Pacific Island economies, more fish processing must be located locally. Port and dock facilities, inter-port shipping and ship repair services require expansion to provide increased opportunities for fishing-related activities.

Energy use in the islands will increase with development. It is estimated that only 25 percent of households in the region have electricity,⁶ and low-cost power needed for industrial development is scarce. Other areas where there are severe

⁵ United Nations Food and Agriculture Organization, *World Catch Statistics* on the Internet, courtesy of Michael P. Hamnett, Honolulu, 1996, and Bank of Hawaii estimates.

⁶ Peter Johnston, *Sustainable Development and Energy Use in the Pacific Islands* (Honolulu: East-West Center, 1995), p. 14.

shortages include health and medical care, education and training, transport facilities, tourism services and environmental technologies.

The islands are understandably sensitive to the need for sophisticated communications and services that are changing quickly if unevenly: Fiji has Internet access but only one phone for every 13 families. Pohnpei in the Federated States of Micronesia is encircled by fiber optics and the Solomon Islands had digitized switching. Papua New Guinea and French Polynesia have full Internet services,⁷ but in general Internet services in all these islands are at very low levels. By helping the islands to increase their presence on the Net, we can help their exports.

Future technology will affect income sources. In 1995, the Government of Japan completed a 10-year study of undersea mineral resources in the exclusive economic zones of the Cook Islands, Kiribati, Tuvalu, Samoa, Papua New Guinea, Solomon Islands and Vanuatu.⁸ Seabed recovery by robot is being developed for some future application however distant.

Impediments to Trade & Investment

There are few difficult trade, investment and labor issues-reciprocity, intellectual property rights and dumping-between the United States and the island economies. Instead, the impediments to trade and investment growth are the high transaction costs and low efficiencies associated with the geography of the islands and the strength of their communal institutions. Questions for investors are those of scale, high start up costs and length of cost recovery. Common to the experience of businesses in most of the island economies is the requirement of more time to become profitable, because of isolation and because of costs imposed by domestic customs and traditions that differ from those in market economies, especially in the area of land acquisition. Land is communally owned in most of the islands and cannot be purchased but rather is leased for short or long terms. Arriving at lease agreements is typically time consuming, expensive, uncertain, and, in some countries, subject to almost endless litigation. Local regulations and tax systems are often very different from those in the United States.

Tourism grew rapidly over a long period until September 11, 2001, especially to Hawaii and the Western Pacific. When the security situation returns to normal, tourist pools in North America are large and growing. Japan sends 12–15 million tourists overseas a year. Australia and New Zealand are notable tourist suppliers. As per capita incomes rise in Asia-Pacific and North America, all of the Pacific Island economies are candidates for increased Asian tourist dollars. But what types of tourists they receive will depend on what these markets offer. Outside Hawaii and Guam, tourist plants need expansion, renovation and the addition of attractions. All such development requires large sums of capital which local markets cannot supply.

The US Dollar Economies

Guam and CNMI are major tourist destinations and Japanese tourists make up 70–80 percent of total arrivals. On Guam, the Japanese tourist has replaced the US military as its largest income source, giving rise to a whole range of new activities and income sources. As in Hawaii, most of the hotels and other major tourist facilities on Guam, including retail outlets, are owned by Asian and other non-American firms. But there are net gains to Guam in jobs, taxes and the development of the skills associated with an affluent tourist market.

CNMI is the second most important destination in Micronesia. There is also a garment manufacturing industry which sells in US markets duty-free entry. Were it not for Japanese tourism and garment manufacturing based on Asian capital and labor and US markets, the CNMI would face the same economic dilemma common to the central Pacific's small economies: how to expand economic opportunity with extremely limited human, capital and technological resources.

Palau benefits from its proximity to Asia. Total value of the economic assistance package allowed under Palau's compact of free association with the United States amounts to nearly half a billion dollars over 15 years (1994–2009). With a population of less than 20,000, and with one of the Pacific Ocean's most unique and attractive (though fragile) ecosystems, Palau has to put in place the infrastructure to launch its tourism sector. Having learned from the experience of others, Palau will probably develop its tourism slowly. As illustrated in Palau, protection of local eco-

⁷James Di Giambattista, "Pacific Islands Business Network: Marketing Oceania Overseas," *Proceedings of the Pacific Telecommunications Council, January 1996*, p. 372.

⁸See Japan International Cooperation Agency, Metal Mining Agency of Japan and South Pacific Applied Geo-science Commission, *South Pacific Sea Floor Atlas*, March 1995.

systems is among the most pressing issues further limiting what can and cannot be done in the island economies.

FSM and RMI are the farthest away from Japanese and other East Asian tourist markets and have the lowest standards of living in the American Pacific. The facilities and air transport to develop their tourism sectors are lacking. Their main source of income in the last five decades has been the US military, other US aid and compact payments. In the past money from the United States has primarily been used to pay for consumption in FSM and RMI.

FSM and RMI are also located in the midst of the Pacific's most fertile fish habitats, providing some prospects for fish processing development. The question is whether American and other firms will be willing to invest in these two economies. The answer is probably not, at least without substantial incentives. These markets are small and in need of special consideration.

The six US dollar economies (Guam, CNMI, Palau, FSM, RMI and American Samoa in the South Pacific) have a combined population of just under half a million (less than seven percent of the region's total), occupy just about one half of one percent of the land area and generate 23 percent of the region's total GDP. Guam, CNMI, Palau and American Samoa (where two fish canneries are the largest employers) have higher living standards than the non-dollar economies in the rest of the Pacific, except the French territories, and higher living standards than the developing world as a whole. This is the result of direct American involvement and links to US markets. All of these are safe markets because American involvement will continue.

The Non-Dollar Economies

Among the South and Southwest Pacific economies, the five largest, Papua New Guinea (PNG), Fiji, Solomon Islands, New Caledonia and French Polynesia, offer both immediate and long-term prospects for trade and investment opportunities. These five economies make up 85 percent of the region's total population, more than 96 percent of its land area and more than 70 percent of total income. The single largest economy is PNG with 64 percent of the region's population, 84 percent of the land, and 21 percent of total income. However, PNG's per capita GDP is only one-third of the region's.

Throughout the Pacific Island economies, there are large rural and subsistence sectors, and labor force data do not capture large numbers of the unemployed and underemployed. Some of these economies offer substantial potentials in natural resources, minerals, oil (PNG), agriculture, aqua-culture and fishing, and have large pools of low-cost labor and tourism development potential. PNG also has opportunities in other natural resources, finance, construction, health care, education and tourism.

French Polynesia's greatest opportunity lies in tourism and its largest potential market is not France or Europe but North America. The territory's tourist market is on track now that French nuclear testing has ended. The French territory of New Caledonia has the world's third largest nickel deposit as well as a large land mass (larger than Hawaii). Both economies need construction, health care, education and newer telecommunication equipment.

Fiji has both a large sugar industry and the largest tourism industry outside Guam and the CNMI, along with well-established garment manufacturing and financial services industries. The population is approximately 55 percent indigenous Fijians and 40 percent Indians who were brought to the islands by the British more than a century ago as plantation workers; Fijians own and control the land while Indo-Fijians grow and manage sugar and most of the urban economy. Fiji's market institutions were strong until political instability became a recurrent problem. The failure to adopt a new land tenure system is a critical economic problem, resulting in idle lands, poor investment in modern sugar processing equipment and emigration.

The smaller economies of Vanuatu, Samoa, Cook Islands, Tonga and Kiribati are based on tropical commodities such as copra and other agriculture, specialty tourism, handicrafts, light manufacturing and fishing. French Polynesia and Cook Islands also produce cultured pearls. Some Central Pacific economies are small and away from main market transport routes: Tuvalu, Wallis and Futuna, Tokelau (population 1,500) and Niue (population 1,745). These economies have neither the financial or natural resources to become any more self-reliant than they are to date and need assistance to stay afloat and to increase income levels. Nauru's earnings from phosphate deposits, which are nearing exhaustion, make it a special case. Some of phosphate royalties have been poorly managed. This flow of money was a major incentive for Nauru to develop offshore banking facilities, with inadequate standards,

and, last year, to accept for temporary shelter Middle East and Afghan refugee unwanted by Australia.

IV. RECOMMENDATIONS

The United States needs a strategically-focused, forward-looking and cooperative economic policy for the Pacific Ocean. This policy should have three dimensions:

- a robust US diplomatic presence,
- the creation of a new, formal regional economic cooperation program to expand American private sector engagement in the region while strengthening island economies,
- the coordination and support of the many existing federal and federally-funded programs and facilities that collectively make up the apparatus to support American economic interests in the region.

I also believe the United States has a strong interest in working with and encouraging continued engagement by other friendly countries in the region, especially Australia, New Zealand, and Japan.

1. *US Diplomatic Presence*

American diplomatic stature and trade and investment interests will benefit greatly from a showing of US commitment by a full and uninterrupted US presence on the ground. As one formerly involved with a commercial bank operating in the region, I can attest to how important embassies and their staffs are to our economic as well as political interests. They are not only the most useful links to Americans visiting these countries, they are in some cases the only sources of reliable and current information on markets, political change and other events that affect both immediate and long-term political, economic and business prospects.

In particular, US diplomatic missions which serve more than one country may benefit from increased resources and fuller staffing. The US embassy in Port Moresby, PNG, for instance, also serves Vanuatu and Solomon Islands. This embassy has limited resources while trying to keep track of three distant markets, all deeply troubled by political unrest and signs of failed states. The Pacific is only one region that has suffered from the failure to maintain a strong overseas diplomatic presence. The United States needs to recalculate the costs and benefits of its diplomatic presence worldwide.

2. *A New Regional Economic Cooperation Framework*

American policy in the Pacific Ocean requires a dedicated regional economic development program led by the United States. To my knowledge, there has been no serious comprehensive thinking about U.S. economic strategy in the region. At best, the region has been treated only briefly as a side show to the larger Asian arena.

I would suggest that the Joint Commercial Commission (JCC) be enhanced to become a meaningful regional economic and financial cooperation forum, exclusively for the United States and the Pacific Island economies, with the purpose of fostering economic links between the United States and the Pacific Islands. The East-West Center, which works with the US Government to backstop the JCC is an ideal venue to strengthen this mechanism, but resources will have to be dedicated to that function. The program will encourage American firms to trade and invest in the region with the objective of creating private sector activity and public sector cooperation in the islands.

The proposed regional economic cooperation pact, called something like Pacific Economic Community (PEC) would provide special incentives for American trade and investment interests to seek opportunities in the region. PEC will encourage expansion of trade and investment among member countries primarily through the private sector. Elements of the PEC might include trade incentives (similar to those offered by the United States to the Caribbean nations or by Australia and New Zealand to the Pacific Island economies, technical assistance to island governments wishing to engage in deregulation and economic reform, and trade and investment missions to the region from the United States.

Training of island leaders in modern economic and business concepts is also critical. Government is often the dominant economic force in the Pacific Islands, and Pacific Island governments expect to be big players in their economies. Understandably, given the communal roots in the region as well as its colonial history, the government's large role today leads to inefficiencies and makes it an obstacle to effective and timely economic change. A critical new role for government will be to enhance the workings of markets through removal of laws and regulations that inhibit trade, foreign and domestic investment and flexible deployment of factors of produc-

tion, including labor. Pacific Island governments should not expect to receive specific aid for opening their markets or to expand the government role in new economic activities emerging from this program. Instead, they should further the expansion of their own private markets by privatizing essential economic activities such as utilities.

3. *US Government Assistance*

As the third prong of the proposed new US effort, some realignment of federal programs and a commitment of funds—for example to OPIC and USAID—will be required. To make the new program work for both the United States and the Island economies and to create economic opportunities of some useful scale, the US government and American business must work together to obtain the most value for the efforts Americans will expend either as taxpayers or investors, and to deliver the most out of limited resources. This can best be achieved if all federal programs affecting PEC work together with it.

The expanding need for airline services in the region indicates a larger role for the Federal Aviation Administration. The FAA should be supported in making regional contacts from its Honolulu office to other regional hubs such as Fiji to extend technical and other assistance in island economies outside its usual jurisdiction. The Coast Guard may be given additional responsibility in the American Pacific to assist in preventive and remedial activities connected to the use of waterways and should also be supported in interaction with its counterparts outside the US-associated Pacific.

By taking these and other steps, the US government will make clear its commitment to the future prosperity of the Pacific Islands. Aid has too often made the Island economies vitally dependent on the generosity of outside sources. The new focus on the region and its resources will direct attention to production and distribution. By enlarging the private sector through trade and investment in the region, the United States will show by example how to turn hopes and expectations into goods and services from indigenous resources. These measures will answer the US requirement of a safe and friendly Pacific Ocean across which to conduct the largest component of United States-World trade. By showing our willingness to take action on behalf of the Pacific Islands, these measures will also help set the terms of the discussion with the larger Asian economies as our relations through trade and investment evolve in the years ahead.

Mr. Chairman, I realize that the program I am recommending will cost money, and money has again become very tight in the wake of our reduced revenue stream and greater expenditures on the war on terror. I believe that an important part of the war on terrorism, whether in the Middle East and South Asia or in the Pacific islands, involves a robust political presence, a longer-term strategy and vision of US interests, and efforts to work collaboratively in government-to-government programs, private sector activities and education. Despite the region's difficult geography and micro-states, Americans generally find many positive elements to work with in the islands. I have mentioned the mostly democratic systems and vibrant civil societies, which include active religious and philanthropic organizations. Many of the leaders have strong connections with the West. As evidenced at the March meeting at the East-West Center of the Standing Committee of the Conference of Pacific Island Leaders, the Island leaders were deeply affected by the events of September 11 and want to assist our efforts in whatever ways they can.

Many people are pessimistic about the economic and political prospects for the Island region. I like to think that I am a realistic optimist. The challenges are serious. But I believe that a relatively small American investment, if done according to a clear vision and in cooperation with our allies and the island nations, can go a long way in strengthen our relations with the island nations, protecting our security interests in the region and moving forward with mutually beneficial economic relations.

Again, let me thank you for inviting me to testify and let me assure you that I, or any of my colleagues at the East-West Center, would be happy to share our expertise with you and the Committee staff. We sponsor a regular Pacific island study group for Congressional staff and we provide the only region-wide on-line Pacific Islands news service (<http://www.ewc.hawaii.edu/pidp-pi.asp>). You have only to call upon us.

V. APPENDIX

Pacific Island Economies (EWC spreadsheet, one sheet)
 Political Status of Pacific Islands (Table, UH Center of Pacific Island Studies)
 Map 1: The Pacific Islands
 Map 2: Political Entities of the Pacific Islands

Map 3: Culture Areas of the Pacific

Map 4: 200 Mile Exclusive Economic Zones of the Pacific

SUPPLEMENT: PACIFIC ISLAND PROFILES

Following is more detail about those Pacific Island economies the witness has visited, most of them several times, and written reports on. The East-West Center has first-hand knowledge of these and the rest of the island economies through its contacts in the region going back more than 40 years when the Center was established. These profiles take note of the more viable industries, investment opportunities and difficulties US investors are likely to encounter. As a general note, American trade and investor interests can be expected to find the dollar-denominated (American) Pacific more approachable simply because the currency in circulation is the US dollar. That having been said, the South and Southwest Pacific sometimes offer larger and more varied markets for Americans and American business interests.

Territory of Guam

Mass tourism approached nearly 1.5 million arrivals a year in the early 1990s which brought business and economic opportunities that would otherwise be difficult to attract to a small island. These include upscale and duty-free retail shops catering to tourists, big-box retailers such as K-Mart catering to local residents and tourists, an American-style factory outlet mall in the late 1990s, and movie theater complexes that are typical of large or affluent markets. Services generated by tourism and tourist related activities not only offset the declines resulting from cutbacks of US military, they for the first time in many years produced net gains for the local labor market. Had it not been for the air travel safety concerns and uncertainty created by September 11 terrorist attacks, Guam was inching once again toward economic growth. Now that Japanese tourist count is still 30–50 percent behind trend and there are no new US military activities, the American territory is struggling to stay afloat.

Guam is politically stable and economically on the decline. Guam wants more economic and perhaps some political autonomy as a US territory. It has often sought an exemption from the Jones Act, which limits access to foreign ships calling at American ports. Hoping for an exemption that will allow foreign ships to dock at Apra Harbor in Agaña, the territory expects to expand its economic base. Apart from contention over the Jones Act and other issues that affect Guam's ability to determine its own economic future, the American territory is as solid as a state.

Commonwealth of the Northern Mariana Islands

Like Guam this is a major tourist market for Japanese and other Asian tourists who numbered over 700,000 per year in the late 1990s. CNMI has experimented with legal gambling with little success so far. And just as Guam, large drops in Japanese tourists since the September 11 attacks have left a large void in the economy which nothing can immediately fill. Alongside reduced tourism is a garment manufacturing industry that directly employs about 15,000 people, most of them workers from Asia. CNMI's first shopping center opened in 1995. Most hotels and garment factories are Asian-owned, particularly by Japanese and Korean investors. Most conveniences found in Hawaii are available in CNMI.

Potential problems in CNMI arise from congestion on Saipan where 90 percent of the population resides. Land lease is an area of contention and potential conflict for investors: land laws are a cross between communal and market regimes without clear legal demarcations. As the economy expands, the pressure to standardize land laws may be sufficient to force corrective steps.

Future demands for increased economic activity can be met on the largely preserved islands of Rota and Tinian. A commonwealth with extraordinary attributes typical of sovereign nations such as its own immigration and labor laws, CNMI is the most stable and politically predictable of the former Trust Territory areas.

Republic of Palau

Palau is potentially among the most interesting tourist markets in the region. The Rock Islands, a unique and fragile group of forested limestone islands south of Koror, are the centerpiece of Palau's future tourism sector. Currently about 70,000 tourists, mostly Japanese, visit Palau, which has about 500 hotel and motel rooms, about half world class. A new hotel opened in 1997. Plans call for two or three more major hotels by well-known hotel firms in the next few years.

The collapse of the major bridge between the airport on Palau's largest island and Koror in September 1996 disrupted transportation, water and power services in place and the further development of infrastructure. Nearly every segment of the

Palauan economy was affected by this major accident. In the place of the old bridge, a brand new one was inaugurated early this year.

As in CNMI, land acquisition can be problematic. Multiple claims to the same parcel of land and lack of ownership documents to any parcel may make land acquisition difficult. The best way to deal with land acquisition problems under current conditions is to lease or sub-lease land from the government. As the economy develops, the land market will also have to change accordingly. What most people in the Pacific do not realize is how critical smooth and trouble-free transfer and lease of land and other real assets is to the working of market economies. The more businesses enter these markets, the more pressure they exert on local authorities to become flexible.

Federated States of Micronesia

The greatest comparative economic advantage lies in fishing and fish processing; FSM's small land area makes it impractical to launch large commercial agricultural projects. A garment manufacturing factory, with capital from Taiwan and labor from Asia, opened in the late 1980s in Yap and is doing well.

CNMI and FSM sell all their garments in the United States. As global trade regime changes, the future of their garment sectors will become uncertain. The same applies to Fiji, which sells garments in Australia and New Zealand under preferential terms. Unable to compete with China and the Philippines, Fiji's garment industry will face a serious problem should Australia and New Zealand decide to end Fiji's special access.

For FSM, aside from major opportunities in fishing and limited ones in agriculture, there are handicrafts and other local products such as Pohnpei's pepper which may make a comeback. Diving is a specialty tourist attraction, in particular in the Chuuk Lagoon where ships of Japan's Combined Fleet were sunk during World War II. Some small scale tourist infrastructure and a fish processing plant, especially in Chuuk, can go a long way in expanding economic opportunity and jobs.

Republic of the Marshall Islands

The country's mean height from sea level is seven feet and most of its land is unsuitable for cultivation because of high salt content. The Marshalls' economic fortunes have mainly depended on the US lease of Kwajalein Atoll where the Army maintains a missile range. The injury and displacements caused by US nuclear tests in the Marshalls in the 1950s and 1960 have resulted in an ongoing legal and financial arrangement with the United States that pays benefits to those affected directly or indirectly.

A large commercial hotel opened in July 1996 in Majuro, financed by the government and managed by Hawaii-based Outrigger Hotels. With limited potential in tourism, development in the Marshalls is severely constrained. Land is limited in Majuro, but the outer islands may offer sites for specialty resorts and environmentally sensitive tourism.

Its population is less than 55,000, and the Marshallese job requirements are small, but rapid population growth, 4–5 percent annually, frustrates most efforts to expand the economic base. Per capita GDP was \$2,009 in 2000. Recognizing the diminished importance of the Kwajalein missile range, the RMI government has studied the possibility of creating nuclear and other hazardous waste disposal sites in its waters. So far, this effort has not produced results.

Territory of French Polynesia

With nuclear tests concluded permanently, the French government entered into a new economic development treaty with French Polynesia in 1996 which commits the French government to helping the territory create permanent sources of income to replace payments connected to nuclear tests. By this and other means, the French government hopes to raise the share of income generated from local sources from 30 percent to 50 percent by 2006.

French Polynesia's two greatest comparative advantages are in tourism and Tahitian pearls. Tourism and related services and infrastructure offer excellent opportunities for America investors. As the territory expands its upscale tourist market, particularly in North America, it needs basic infrastructure, hotels and other facilities and services. The territory has already adopted programs to ease the laws and regulations concerning land acquisition and lease, modify tax laws and add other incentives to attract foreign capital.

The Tahitian independence movement was once the source of major concern, especially after the 1996 election when its share of the local assembly seats went up from 10 to 25 percent. Making no further gains in the 2001 election and maintaining its share at 25 percent, it is now considered harmless opposition. With increased French economic commitment to the territory, it is unlikely that the independence

movement will gain more power. Instead, there is the expectation that reconciliation is a more attractive route than division, as recent events in the other French territory, New Caledonia showed.

Territory of New Caledonia

The Government of France is committed to maintaining its presence in New Caledonia as long as this is acceptable to the majority of New Caledonians. New Caledonians determined the nature of their political and economic connection with France by means of the ballot in 1998. More than 70 percent of all voters voted to keep New Caledonia a French territory. That decision removed a major source of uncertainty from the territory and its attractiveness as a major nickel market where new nickel mines and processing plants are either under construction or near construction stage.

Relying largely on nickel and French transfer payments, the New Caledonian economy has a narrow base which makes it vulnerable to both domestic (French) and global economic changes. At the same time New Caledonia has resources that can support a much larger labor force than that currently employed, largely in services. To the extent that expansion of the economic base depends on the territory's political links to France, the change in status resulting from the 1998 ballot and the Noumea Accord which altered the link from an "overseas territory" to an "overseas country" and remains in force for 20 years, was a major achievement for both political stability and economic growth. Among the commitments accompanying the new arrangement is French financial resources for expanding the territory's infrastructure, especially in the sparsely populated and much less urbanized North and Northwest.

With disappearance of political uncertainty, New Caledonia has the minerals (the world's third largest nickel deposit and possibly other mineral deposits), land and other natural resources to do well in the next 10–20 years. Tourism, agriculture, fishing and aqua-culture offer opportunities. In the less developed North and Island Provinces, the demands are even greater for everything from basic infrastructure (roads, power plants, water and sewer systems) to services for both local people and future tourists. Land acquisition may be somewhat difficult but land leases can be arranged.

Republic of Vanuatu

Copra, cocoa and cattle are the main cash crops and coffee and kava are important to some regions and gaining in others. Tourism, government services and other services and cattle ranching are components of the formal money economy. Manufacturing and processing, energy and construction are a small but growing parts of the economy. Vanuatu has sought to establish itself as a tax haven to attract foreign private capital. Opportunities other than those offered by the Offshore Finance Center and related incentives are in tourism, agriculture and light manufacturing using domestic raw materials and labor. Land acquisition can be problematic, but lease arrangements can be made. The government is divided between Anglophons and Francophons, a legacy of the British-French condominium. Malaria remains a source of concern, especially outside the capital. However, the country's scenery and other natural attributes in a tropical setting offer good opportunities for specialty tourism and specialty products.

Solomon Islands

The Solomon Islands are among the most mountainous and scenic island chains in the Pacific. However, because of their comparative isolation in the Southwestern Pacific, they have remained relatively untouched. The country's abundant forests, minerals (especially gold), ocean resources, tropical climate and labor force provide the conditions for sustainable income growth and investment. The need for more rapid economic growth is nowhere more evident and urgent in the traditional South Pacific than in the Solomon Islands, where population growth has outstripped economic gain for at least two decades. Apart from traditional agriculture and primary commodity exports such as copra, log sales are the country's largest source of foreign exchange. Log production increased from an average of 350,000 cubic meters in the 1980s to 640,000 cm in 1992 and a record 686,000 cm in 1993. Production has since dropped considerably, especially recently as political and social unrest has continued to destabilize the country. At the mid-1990s licensed level of harvest, the total national resource will have been exhausted in about 15 years.

The prospects for returning to stable political and economic conditions are not strong because of the fractious political situation, ethnic and linguistic divisions and a tribal setup which impede the building a modern political and economic institutions. The Commonwealth has mediated several ceasefires and other efforts and led peace and reconciliation talks without much success. Solomon Islands remains badly

divided politically, struggling economically and financially and needs more outside intervention to put the country back on track.

Even with political stability, rebuilding the Solomon Islands economy will be a challenge because of poor infrastructure, high transport costs and concerns about malaria. Developing a consistent niche tourism market will require considerable promotional effort, in addition to reconstruction of the basic infrastructure without which a visit becomes a chore. To the extent that doing nearly anything to generate new income requires secure and certain access to land in the Solomon Islands, it will be essential to find a practical solution to the problem of uncertain land titles. The principal advantages of a market-like land system would be both efficiency and certainty that would aid the process of economic change and growth. Such a predictable system of land use rights and exchange for specific and limited uses should also help preserve the integrity of the communal system.

Republic of the Fiji Islands

Fiji has recently been in regional and global media for political instability arising from ethnic divisions. First, the 1987 coups and subsequent changes created an environment of uncertainty and contention for a decade. In 1997, Fiji finally ratified a constitution that was more liberal than the draft and it appeared as the blueprint for a genuine liberal democracy in the Pacific. The first elections under the new constitution were held in 1999 which produced a government dominated by the largely Indo-Fijian Fiji Labor Party (FLP), in coalition with several smaller parties led by indigenous Fijians. An attempted coup removed the legitimately-elected government in 2000 and pushed Fiji into its deepest political and economic crisis since independence in 1970.

Following a combination of military and civilian rules, elections were held once again under the 1997 constitution which was ruled valid by Fiji's judiciary, and produced a government dominated by indigenous Fijians which the FLP has challenged in the courts ever since it took office in August last year. The 1997 constitution requires that any political party with eight or more seats in the 71-seat House of Representatives shall be given cabinet portfolios. FLP which won 27 seats in the August 2001 elections has not been given any seats and the ruling coalition, dominated by indigenous Fijian parties, has contended that working with FLP's leadership, namely its leader and the deposed Indo-Fijian prime minister, would be impractical. The situation remains tenuous while the legal battle continues.

As one would expect, Fiji's economy has suffered as a result of political uncertainty and the most significant change in recent years has been a sharp drop in investment as a share of GDP. Even before the latest round of political, economic and financial setbacks, investment as a share of GDP had dropped for a relatively long period of time. In 1980–90, total private and public investment in Fiji averaged 19.9 percent of GDP.¹ In 1990–99, the average was down to 12.4 percent.² In 1980–90, private investment alone in Fiji averaged 10.6 percent of GDP a year. In 1990–99, it was down to 4.5 percent.³ Total public investment remained relatively steady throughout 1980–90, averaging 8.0–9.5 percent.

With a much higher multiplier (ripple effect) than either private consumption or public capital spending, private capital formation is critical to economic vitality, job creation and, more important, productivity. The result of lackluster private capital formation in Fiji during the last decade has been haphazard GDP and employment growth. The unstable political, economic and legal environment has severely limited Fiji's ability to attract capital to rebuild the essential infrastructure without which the productive capacity of the economy cannot expand. Also, Fiji needs capital to exploit the range of its natural resources, from fish to forests and minerals.

In the interim, skilled Indo-Fijians have continued to emigrate as their hopes for political and economic stability become less and less certain. This is especially true for younger persons with marketable skills. The total cost of this wave of emigration, not to mention that following the 1990s instability, is unknown but believed to be large.

With political stability and genuine democratic rules, Fiji is a potential showcase among the South Pacific's economies because of its large land mass, natural resources, work force and infrastructure, and its capacity for growth. If Fiji moves toward reconciliation, it will offer one of the most lucrative markets for American trade and investment interests in the Pacific. For the Fijian economy to move ahead and get on track toward its long-term potential of 5-percent or more growth a year,

¹ In Fiji, total public capital formation is made up of two parts: government and the so-called public enterprises which are entities owned and managed by government.

² The average for the developing world is about 20–30 percent.

³ The average for the developing world is 15–25 percent.

its institutional structure must be rebuilt. It is in the best interest of the United States to help Fiji move toward reconciliation and with it, toward widespread economic gain.

Papua New Guinea (PNG)

PNG is by far the largest of the Pacific Ocean economies, with a total land area of 178,704 square miles, 15 percent larger than California and nearly 28 times the land area of Hawaii. It has a population of 4.8 million and generates a total gross domestic product of \$3.8 billion a year, with a per capita GDP of just \$782. Well endowed with minerals and a large exclusive economic zone, PNG's economy has grown neither rapidly nor consistently since independence in 1975. PNG has two economies, a small and stagnant urban sector dominated by a bureaucratic public sector within a large, poor rural economy. The rural economy is large, but it has remained a subsistence economy. Most mining and oil revenues and foreign aid, which has been generous, have gone to public and private consumption.

The secessionist rebellion in Bougainville that started in 1988 officially ended in the late 1990s, but a total settlement satisfactory to both sides has yet to be worked out. The rebel province's economy has suffered from years of war and near total destruction of infrastructure. The 500 miles between Port Moresby and Bougainville make both war and peace harder.

About 97 percent of the land in PNG is classified as customary, land that can be leased but not sold. Aside from restoration of political stability, dealing with a serious crime problem in cities, especially in Port Moresby, is the government's other main preoccupation. Most observers believe that settlement of the Bougainville conflict should pave the way for overall political and economic stability.

As fragmented as the PNG economy is, certain areas and sectors such as mining and oil production will do well because the PNG government, needing the income they generate, protects them. The capital, the country's governmental, commercial and civic center, will continue to function, in spite of episodes of random violence. The economy as a whole will most likely grow haphazardly as in the past, and mining, oil and forestry will continue to do better than other sectors. Economic vitality will return to PNG in the next 5–10 years if the political challenges can be dealt with effectively.

Samoa

Samoa is among the smaller Ocean countries in land area, population and exclusive economic zone and has limited trade and investment potential. Major industries are subsistence agriculture, foreign remittances by Samoans living overseas and a small but growing tourism industry. Most Samoans living in Samoa prefer to keep the natural environment much as it is.

There are specific opportunities in tourism development, especially in Apia, where tourist accommodations are needed. There is hope that tourism, especially from New Zealand and Australia, will increase. Rural Samoa offers opportunities in tropical agriculture and fruits, especially for the export market in Australia, New Zealand and possibly Japan. Yazaki Samoa dominates the manufacturing sector. In the near term, the economy is shielded from adverse overseas impacts by remittances amounting to as much as one-third of the country's foreign earnings.

Territory of American Samoa

The tuna canneries in operation since the 1960s have been the territory's largest employer, occasionally eclipsed by the Government of American Samoa. The territory opened its first garment factory in late 1995; it employs 700–800 workers, about half of whom were Samoans. The factory closed recently. Government and the canneries are the territory's primary economic activities. Tourism has not been one of the territory's top priorities for economic change, but local attitudes toward tourism are changing, and there is rather urgent need for some new tourist plant. American Samoa is both safe and receptive to American investors. It is home to the United States' newest and least known national park.

Mr. LEACH. Well, thank you very much, Dr. Osman. We are appreciative that you have come such a great distance.

Let me begin with a question about the compact. Thank you all for coming from Taiwan. We appreciate it very much. Thank you. With regard to the compact negotiations, can you give us a status report where have you more or less reached agreement, where have you not, and what is your timetable? Mr. Short?

Mr. SHORT. First of all, sir, I would like to recognize your very supportive statements regarding your personal interest and the Committee's interest in the congressional action that will have to be taken on the work that we are doing on the compact.

I should point out that we are not renegotiating the Compact of Free Association. The political relationship stays and continues. We are addressing primarily the economic assistance to the Marshall Islands and the Federated States of Micronesia, and that funding was extended pursuant to the compact for 2 years and will end at the end of fiscal year '03. So on 1 October '04, the new regime will come into play.

We have at this time made economic proposals to the FSM and Marshalls. Basically, we are in the closing room, if you will, on those issues, the title II package, and also the supporting arrangements that will support that. As you are probably aware, there have been some questions that have arisen concerning accountability and oversight. We want to address that in the new compact provisions. Further, we want to end the mandatory annual cycle of appropriations and replace that with a trust fund, and we feel that it will take 20 years for that trust fund to accrue a sufficient corpus to basically replace the annual funding. So the construct is a 20-year period of continued assistance, and at the end of that period the trust fund would take the place of the annual appropriations.

We expect to conclude those negotiations and initial the agreements within the next month. There is a series of subordinate agreements that generally concern U.S. technical assistance, such as the Postal Service, weather, FAA, FDIC in the case of the FSM, and those agreements are well along, and those support the overall relationship.

There is one other area that we are addressing that is not an expiring provision of the compact, and that is the immigration provisions. As you are well aware, the Micronesians have the capability to enter the United States without resort to visas, and that has been an effective safety valve basically to allow Micronesians to enter the United States for work and study over the last 15 years.

Partly as a result of 9/11, but partly just as a result of 15 years' worth of experience in administering the immigration aspects of the compact, we feel that certain adjustments are needed. We are not going to abridge in any way the basic right of the Micronesians to enter the United States for work or study, but there are some areas we basically need to adjust, and we have had negotiations, in fact, this week on those issues, and we would expect to present that along with the amended compact to the Congress for consideration.

Mr. LEACH. Well, thank you for that optimistic appraisal. I would only say that it strikes me from Congress's perspective there are three broad parameters of concern. One is the historical one, in particular the issue of nuclear testing, which Mr. Faleomavaega has raised, and then the current one that relates to some of the new challenges in the wake of 9/11. And then, thirdly, there is intense concern on the Hill on the political governance issues. I think that the Hill would like very clear that the Administration is obligated to look at those issues with a great deal of seriousness.

Let me turn to one other issue before going to Mr. Faleomavaega, and that relates to the issue that Ambassador West referenced and Secretary Daley implicitly of the question of engagement with this region and the importance of the region. In the last decade or so, we have seen USAID missions pulled back, we have seen public diplomacy pulled back, and the question becomes how seriously is the United States looking at the region. Many of us think that, in terms of the landscape of the earth, American policy has given this short shrift. Can you address this in a way that gives us greater assurance? I know there is an attempt to redirect, but what about our actual presence in the region in many different ways? Secretary Daley?

Mr. DALEY. Thank you, Mr. Chairman. I did, indeed, note that our presence drew down during the 1990s. I would offer the view that it was not so much a question of lowering our estimate of the importance of the Pacific Island countries of the region in general to the United States, but rather it was part of the process of retrenchment which the department experienced as a result of budgetary exigencies. We were forced to close posts in a number of locations in the world, including Izmir, Turkey, which resonates strongly with me because it was my first overseas post. We closed our consulate there that had been in continuous operation since 1809 in the 1990s.

We also, as a result of budgetary pressure and perhaps an imperfect assessment of what the end of the Cold War meant, dramatically cut back on a lot of public diplomacy functions globally, not just in the Pacific but around the world. I think we have come to appreciate that although the imperatives that drove many of the public diplomacy programs during the Cold War no longer exists, the need for the United States to explain its purposes, its ideals, its motives to people throughout the world remains very much intact and that we pay a price when we neglect that responsibility.

One of the areas where we are trying now to be more active is to find a mechanism to enable our embassies in countries which do not have a USAID mission to basically engage in not only a more active public diplomacy but also in a variety of projects which traditionally have been administered by USAID in the areas of development assistance, for example, and in the areas of democracy. We are currently engaged in internal deliberations within the department about how we can best do that.

Obviously, sir, we are going to be using appropriated funds, assuming that we have a successful outcome to these deliberations, and so in one guise or another we will be reporting back to you and asking for your support. In the short term, if we can find an appropriate mechanism, it is my hope that we would be able to reprogram money that we already have in our FY 02–FY 03 budgets to be the initial tranche of this increased support in the Pacific Islands.

Mr. LEACH. Thank you very much. Mr. Faleomavaega?

Mr. FALEOMAVEGA. Thank you, Mr. Chairman. Just a couple of questions I wanted to ask Secretary Daley. What is the total dollar amount that is being proposed by the Administration for the programs for the South Pacific Island nations?

Mr. DALEY. Sir, I would like to get back to you with an answer to that because there are so many different accounts that I do not have one figure that covers all of the different programs. For example, we are moving money into counterterrorist cooperation and to programs that will help with trafficking in persons, which shares the acronym of the terrorist interdiction program but is a very different kind of program. If I may, sir, I would like to get back with you because any number that I would give you right now would be flawed.

Mr. FALEOMAVAEGA. Let's start with \$14 million in the regional fishing treaty. Is that part of the State Department?

Mr. DALEY. Well, we have got the \$14 million in the regional fishing treaty. Actually, I think that amount is going to go up just a little bit. We have got the money that will be going forward through the—

Mr. FALEOMAVAEGA. What exactly is the presence of USAID in this region, or do we have any presence of USAID?

Mr. DALEY. The AID presence now is largely a regional presence.

Mr. FALEOMAVAEGA. But specifically for the needs of the 12 Island nations, what has USAID provided for these Island countries?

Mr. DALEY. These are by and large regional programs. They are not country specific.

Mr. FALEOMAVAEGA. You say regional. How much is USAID spending, then, for the region?

Mr. DALEY. Let me see if I have got that in my—

Mr. FALEOMAVAEGA. Can you provide that for the record because I know my time is limited?

Mr. DALEY. Certainly. We can provide that for the record, sir, yes.

Mr. FALEOMAVAEGA. You had mentioned in your statement about many of the workers from the islands of Tonga and Samoa make up a lot of the population in New Zealand. I just learned last week that there was a recent meeting of the World Bank in New Zealand where there was criticism by World Bank officials about the remittances that a lot of these Tongans and Samoans send back to their families because of their need.

I would submit, Mr. Secretary, that is an absolute absurdity on the part of a World Bank official to criticize remittances being sent back to the families of these people who decide to live in New Zealand or Australia. On that note, it is my understanding that the half a million Filipinos that live around the world send remittances in excess of \$15 billion to the Philippine economy. What really grates me is why are we criticizing the Islanders for doing this when we have countries all over the world that do this such as in Central America and the Middle East? Jordan is one of the classic examples where families send money back in remittances. I am really, really upset that this World Bank official is making this kind of criticism. If a person wants to live in New Zealand from Samoa or Tonga, and by the love of his or her heart they want to send some money to help the family, I do not see where that is the business of the World Bank to get into.

Mr. DALEY. Sir, could I simply say I agree? I have got no idea why the World Bank would take that position. Remittances from overseas populations have been critical in the development of any

number of countries throughout the world, not just the Pacific, and I am not sure why——

Mr. FALEOMAVAEGA. This is what really grates me. Why pick on the Island countries when this goes on all over the world?

Mr. DALEY. We did not. Like you said, it was the World Bank, sir.

Mr. FALEOMAVAEGA. I am definitely going to contact the World Bank official. I want to find out who this stupid official that made this kind of comment. They should be disciplined.

Mr. DALEY. If I could also add, sir, that both Chairman Leach and you had mentioned nuclear testing. As you know, we have received a changed circumstances petition, which is currently being considered by an interagency group within the executive branch at the request of Congress. I do not have a date for you on when we will have a report on that. The science is complex, and obviously the science has evolved, and our understanding of the problems has evolved over the last 2 decades, but that is one where we, too, have to come back to you with some views.

Mr. FALEOMAVAEGA. I have got a Battle Royale going on right now with my friends from Ecuador and the Andean countries in terms of their vigorous efforts to change the character of the Andean Trade Preference Act to allow tuna to be exported duty free from the Andean countries to the United States at the detriment of the Asian countries that currently are subjected to duties and tariffs. Now the Philippine government is complaining about this. Thailand is complaining about this. But the Administration supports a policy of importing duty-free tuna from the Andean countries. Also, I might point out, this suggested change to the ATPA is to the detriment of my district, which happens to have the largest tuna canning facility in the world. I have tried vigorously, through a letter to Secretary Powell, to ascertain the position of the Administration on this issue, and I have not received one word from Secretary Powell for the last several months. I have expressed my disappointment even to Interior Secretary Norton for her lack of interest on this very, very important issue that is vital to the economy of my district, American Samoa.

I know the reason why we want to give incentives to the Andean countries. It is to fight drug trafficking, which is a very noble and valid reason, but when you have 600 cases of canned tuna confiscated on its way to Spain that contained cocaine, I am beginning to wonder if our drug-trafficking policy. Andean tuna exports is really valid when this is going on. I suspect that the drug cartels among the Andean countries are getting into this kind of a legitimate business to the detriment of the entire U.S. tuna industry which is being affected by this proposal that the Administration supports.

Could you ask Secretary Kelly and Secretary Powell for the position of the Administration on this issue?

Mr. DALEY. Representative Faleomavaega——

Mr. FALEOMAVAEGA. Or Secretary West. She is the expert on fisheries. I just wanted to know if she is aware of this.

Mr. DALEY. Well, she is. We have the same script in front of us. The Administration recognizes that there are important equities, not only in the Pacific, in the Andean countries, but also with the

domestic U.S. industry. I can assure you that this issue is under most active review at very high levels and that it is my expectation that within the not-too-distant future that there will be conveyed an understanding or an appreciation of the Administration position, which is a bit more nuanced than that which you currently have. We are grappling with putting the final touches on that, and I think that will be coming forth in the not-too-distant future.

Mr. FALCOMA. The unfortunate situation, Secretary Daley, is that the position of the Administration has already been made known through the U.S. Trade Representative, and that is they fully support exporting canned tuna from the Andean countries duty free. I just wanted you to know that the conferees in both the Senate and House are going to be meeting today, and the decision is going to come out sometime tomorrow. The fact that the Administration supports this position puts my district and the economy of my district in a very untenable situation, I might add. You might come up with a position 2 weeks later, but it will be too late, in my humble opinion, but we will just have to pursue it and see how it goes.

Dr. Osman, I appreciate your thoughtful views about the situation in the Pacific. You had mentioned this phrase, "benign neglect," in a very interesting way. I would like to share with you—actually it was not President Bush that initiated anything dealing with economic development for our region. It was President Kennedy, in the 1960s, following the Solomon Report that showed that it was a disaster in terms of what we did to the Micronesian countries. At that time they were not even countries. The fact that unilaterally after World War II by a stroke of the pen we just simply said this is strategic trust. It does not even come under the purview of the U.N. Security Council or the United Nations. Our country just simply said this is our territory, and not even the Russians are going to get in on this, as far as we are concerned, because this is a strategic and a vitally important military asset for our national interest. And that is the reason why we have had to deal with the Micronesians for all these years following colonial rule by the Germans and the Japanese.

So the people here that we are dealing with in Micronesia, I might say, have had enough. We have really done them in and taken advantage of them, as far as I am concerned personally, and I sincerely hope that we can do a better job in making amends.

When former President Bush announced this Joint Commercial Commission, I might also mention the fact that this announcement was made only a month prior to the President's arrival. The Joint Commercial Commission, to me, was just a crumb being thrown at the Island nations. It was not even planned, and for years following that, the Department of Commerce and the State Department were constantly hassling between the two agencies as to who was going to take responsibility on how the JCC was to operate. I know this personally because I have been involved with it.

So in terms of what is happening now with the promise of economic assistance, hopefully, we can provide more substance than form. One of the problems that I am raising right now, Dr. Osman, and maybe you can help me, is why the Bank of Hawaii is closing all of their offices throughout Micronesia? You are suggesting that

we ought to provide more economic assistance to the Island countries, and the very bank that you work for is doing just the opposite.

Mr. OSMAN. I just wonder how much time I have to address this question. I do appreciate the Chairman's talking about my background. If time allows, I would be very happy to give a lecture on the virtues of the republic of which I am a citizen. Apart from that, I think what is important to say at this stage is if you look at the foreign trade pie of the United States vis-a-vis the rest of the world, the biggest wedge of the pie is Asia-Pacific. And perhaps it does not take an economist with any degree to understand that by the virtue of the physical realities around the world this is an important avenue between the United States and the rest of the world.

So perhaps there is no way I can emphasize the importance, nor would I suggest anything to encroach on the diplomatic language of this. But I am an economist. I worked for private business for 20 years, so if I may be forgiven, I would like to speak to issues like that.

Bank of Hawaii, as you know, is a business company. Its bottom line is always driven by bottom line. And the bank management felt in the early 1980s that it had a particular situation, I believe, with respect to the rest of the Pacific to do business and do good. If I may also say this on record and off record, there is something in Hawaii we call the "aloha spirit," which is the essence of sharing not just words and goodwill but also real assets. In the spirit of that sharing, the Chairman of the bank, whom I helped with all of these expansions—I take responsibility for what happened, but at some point the bank stock dropped. I do not want to explain—I would be happy to but for the benefit of time.

The bank got in trouble with the financial markets' assessment. The financial community's reading of the bank was this bank was overreaching, and in any event—

Mr. FALEOMAVAEGA. Dr. Osman, I hate to interrupt, but I know my time is almost up. Could you submit it for the record. I just want to say for the record that the President of the Federated States of Micronesia—President Leo Falcom, is a dear friend of mine—was very, very irate when the Bank of Hawaii made the announcement that it was going to close its operations. And the irony of it is that the operation of the Bank of Hawaii in my district is still going on very strong, and I kind of thought that maybe we are in the same situation as other Island economies. Specifically, maybe we are doing something in American Samoa that other entities are not doing.

I am definitely going to look into this as to why the Bank of Hawaii decided to close operations the way it did. It was so abrupt, and it made a lot of people unhappy. But at any rate, I am sorry, Mr. Chairman. I know I have taken too much of the Committee's time, but I want to thank our Committee Members. I hope that maybe there may be a second round.

Mr. LEACH. I apologize to Mr. Flake. I will be right to you. But as the former Chairman of the Banking Committee, I would like to just assert that increasingly in diplomacy the private sector is as important as the public. And I can believe that there may be

disincentives economically for certain circumstances, but to the degree that the United States Congress can indicate a moral—the presence of American financial institutions in this region is very important. And with American financial institutions come American banking practices in a region where ironically the huge flows of money are Russian, and the corruption that is attendant to that is staggering. And so to the degree that a reputable American financial institution can be present in the region, I think the national interests of the United States and the regional interests of all of the parties is enhanced.

Now having said that, it is always improper for government to say to the private sector go out and lose money, but to the degree that your kind of financial institution, which is the most oriented to the region, can be present, it certainly is appreciated by the Congress and implicitly the American people. Mr. Flake?

Mr. FLAKE. Thank you, Mr. Chairman. I appreciate the testimony. I have a particular fondness for the Pacific region. I met my wife on a beach in Hawaii. We were there actually for school, the same school that Eni attended. I do not remember school, but I remember the beach. But I enjoyed that and look forward to returning to the region often.

Mr. Short, you mentioned renegotiating the compacts, and you would prefer to move to a system of having basically trust funds cover compacts going forward and that this would take about 20 years to accumulate. In the meantime, obviously we have to build trust and fund our compact obligations at the same time. What increased allocation do you expect? What is it going to take? How much do we need in that trust fund to fund obligations going forward?

Mr. SHORT. Well, sir, I can submit for the record basically an allocation chart that shows the actual funding commencing in fiscal 04 through fiscal 23 and then the anticipated trust fund payouts. Let me just summarize. We are doing it with each state separately, and there will be two separate trust arrangements.

The grant funding will decrease over the 20 years, and that decrement will go to the trust fund. The trust envisioned, first of all, a contribution by the FSM and the Marshalls on the front end, \$30 million in the case of the FSM and \$35 million in the case of the Marshalls, basically to kick start the trust and to put an amount of money in the corpus that will immediately start accruing. The trust will be untouched for 20 years. So the contributions from the United States, the interest on that contribution, and the Micronesian contributions will all accrue untouched for 20 years. There are also provisions for third-party contributions to the trust fund. Those are not in our calculus as far as output. It would be an added benefit if a third party would want to contribute.

Mr. FLAKE. I am just trying to get a sense of numbers here.

Mr. SHORT. The trust fund corpus needed in 20 years to basically replace the grant funding with a six percent rate of return is about \$620 million in the case of the Marshall Islands and around a billion dollars in the case of the Federated States of Micronesia. That is what corpus is required to take up the slack, if you will, on the grant funding.

Mr. FLAKE. Mr. Daley, in the case of Guam, in the Resources Committee obviously with the organic act governing ongoing issues there, we have a situation right now where we had legislation earlier this year having to do with the structure of the legal system there. And it really all hinges on circular arguments about when Guam is going to go forward with their own constitution. Do you have any comments on that? Are they moving in that direction? If they are not, what is holding them up?

Mr. DALEY. Representative Flake, I guess what I have to do is the bureaucratic hand-off here. My office does not handle Guam. We would have to get one of our other colleagues to address that question. But as you pose that, I did recall that I forgot to mention one thing that is responsive to a question that Chairman Leach asked, and that is that in terms of presence in the Pacific we have recently received permission from the government of France to open a consular agency in French Polynesia.

So we will be in the not-too-distant future, I hope, be in a position to provide consular services in that locale, and inevitably when we are able to hoist these flags, we have a venue where we can make other things available to people who come in, such as information on various U.S. governmental programs in the region and commercial and economic opportunities. So we are moving ahead on that front, and we hope in the very near future to be recruiting an individual for that job, an American citizen, and we will be going ahead with that, sir. Forgive me for not having mentioned it earlier.

Mr. FALEOMAVAEGA. Will the gentleman yield?

Mr. FLAKE. Sure. You bet.

Mr. FALEOMAVAEGA. Just for the benefit of my good friend from Arizona, I think it was around 1989 that the people of Guam held a plebescite. Overwhelmingly, I think 80 percent or more wanted to establish a commonwealth relationship with the United States. Since that time, in every effort that the leaders and the people of Guam have tried to negotiate this commonwealth status with our government, they have been given absolutely nothing. Every effort has been made through several Administrations. Because they could not even get commonwealth status, they cannot even set up a constitution, and that is where we are at right now.

Mr. FLAKE. Mr. Osman, are there any examples in the Pacific region right now where economic growth is outstripping population growth?

Mr. OSMAN. Economic growth is outstripping population?

Mr. FLAKE. Yes. It would take three or four percent, I guess, this year or last.

Mr. OSMAN. It is normally that population growth outstrips economic growth for most of the Pacific. For most of the, say, developing world in the Pacific, which is primarily South Pacific, south and southwest, population growth rates are among the highest in the world. In the Western Pacific, the Marshall Islands has, I think, one of the highest, perhaps four or five, in the world.

I think it would be probably—I must speak with some care—only two or three places. Guam was doing okay until, say, mid-'90s. The French territories, both French Polynesia and New Caledonia, are doing well but only because the French government was forced into

a rather generous economic development package. If you take those three out, most of the rest of the Pacific, especially the independent countries, population growth rates have outstripped the economic growth rates for years.

Mr. FLAKE. I thank the Chairman. I apologize that I have to leave.

Mr. LEACH. Thank you, Mr. Flake. Ms. Watson?

Ms. WATSON. I want to thank you, Mr. Chairman, for this hearing, and I want to thank the presenters. I have been meeting with Mr. Short and raised some of these issues, but I am just going to throw them out because I think they are important for us to keep in mind as we look at certain aspects of the compact to renegotiate.

Number one, and I think Mr. Osman brought this up, and I thank you for your candor, I think we need to restate our commitment in this area of the world, particularly in the Micronesia area of the Pacific. I was just telling my colleague, Faleomavaega, that we could look at this area and say they were useful to us in the '50s, '60s. They became usable, and in some ways I get the feeling that maybe they appear to be useless to us. This is a feeling I get because of working with the Department of Interior over a 2-year period and asking them to take a greater role in oversight. They said, no, no, no. We just want to handle the money.

So I hope as we go into an extended period of time on the compact that we get more involvement in the oversight. What we have to do in this area is be sure that we leave these areas, if we decide to leave, to pull back, in the hands of people who have been trained in good governance. So compliance monitoring is really an emphasis that I am going to make, and I want to say my colleague and I are taking a codal down to Micronesia on the 28th. And I just felt that in many ways we have neglected training the people that we have worked with over the 17-year period of time to be able to run their own government. This is a very important aspect, of leaving them with something in hand.

There are just so many areas. I am concerned about the environment. We are going to be going to Quadulan and hope to go to Ibai, which is a living result of our successes and failures—I will put it like that—in the region. Ibai is a—place with very little productivity there, and I think this is a result of fallout from testing, and I think we need to do more in the areas of the Pacific in terms of our research and our waste management, pollution, and all of the aspects of decades of testing.

There were examples given to me on one of the islands in the federation of new and, shall I say, alien forms of cancer, particularly among women during their child-bearing years, breast cancer and so on, and we think it might be a result of shellfish, radiation, et cetera. And I do not think we have done a good job in the area in terms of making it possible for these islands to deliver health care in a more effective way.

And so as you go about, and I think you finished on the title II programs, and my call was for we have got to support education, we have to support health delivery, and we have to get the culture within those islands to understand they have to get involved, too. I just have many, many issues, and I am not going to take the time of the Committee at this point. But I wanted to point up some

things that have really been bothering me for a period of time. That is why I am going back out there, because I think we need to do more in terms of economic development, in terms of health delivery, and in terms of the educational system.

I know Mr. Short has been working in this area, and I think you are pretty much satisfied with what has been presented to you. But these are some of the issues that I want to follow up on and look at.

And in closing, Congressman—I always have to look at your name to make sure I pronounce every syllable of it—Faleomavaega and I have kind of made a pact in the 108th Congress to take a look at the environment and what we are doing to improve and help and stimulate the environment, and I am really concerned about the fallout and results of too many years of really—I am not going to say neglect—but not doing what we need to do. You can comment if you wish, or you do not have to. I just have to get these things off my chest. And when we come back, we are going to make a full report, Mr. Leach, to somebody. I beg your pardon?

Mr. FALEOMAVAEGA. Will the gentlelady yield?

Ms. WATSON. Yes.

Mr. FALEOMAVAEGA. I just want to say that for the gentlelady's information when former Congressman Steve Solarz was Chairman of the Asia and Pacific Subcommittee, our distinguished Chairman was the Ranking Minority Member for some 10 years, and he has always been supportive of issues dealing with the Island nations, especially on the concerns that you have expressed. And I know that the Chairman has the same feelings that we can work together in some way or some form to give the best possible assistance we can to these people. Thank you.

Ms. WATSON. Yes. We formed a pact.

Mr. LEACH. Well, thank you. Are you through, Ms. Watson?

Ms. WATSON. Yes. I just want to thank the presenters for coming here, and I want to thank you, Mr. Short, for your work. I know you had to come in at the end and bring this thing together, and thank you so much.

Mr. LEACH. Thank you. Given Eni's statement, I have to express serious concern for Eni's tuna. We hope that these nuance changes mean substantive movement. Is that fair, Mr. Faleomavaega?

Mr. FALEOMAVAEGA. Well, Mr. Chairman, all I am going to say is that whatever the turn of events on how this tuna issue is going to come out with the Andean Trade Ad, I will just have to come back to the Congress and say, you have bankrupted us, so now help us.

Mr. LEACH. Well, let me thank you all, Secretary Daley, Secretary West, Mr. Short. We wish you well. And, Dr. Osman, thank you for your testimony, and we hope to see more of you. Thank you all.

Mr. DALEY. Mr. Chairman, thank you. If I could just close by adding that we have clearly heard the message that we need to do a better job on oversight of our responsibilities, and we look forward to continuing, perhaps when you return from the CODEL, Representative Watson, to talking some more—

Mr. LEACH. Perhaps we could have at least an informal meeting.

Mr. DALEY. Absolutely. We do have that message, and, Chairman Leach, I would to thank you again for holding these hearings and giving us the flexibility to bring negotiator Short in to respond to your questions.

Mr. LEACH. Thank you.

Mr. FALEOMAVEGA. I want to note also, Mr. Chairman and Secretary Daley, that Chairman Hanson of the Natural Resources Committee is planning to take about 10 members to New Zealand and Australia. So I am sure that you have already been made aware of that plan coming up.

Mr. LEACH. Thank you all. Yes?

Ms. WATSON. Just another thing on the Bank of Hawaii. Mr. Osman might want to respond. I was told while I was there in Micronesia that several of the banks were having problems with the Micronesians coming in, getting loans, and going to the United States and disappearing; and, therefore, they were having to write them off. Would that be one of the factors?

Mr. OSMAN. Again, I may go on another tangent, but I hope not to. I think what people need to realize is that business decisions in Hawaii and Micronesia are made on exactly the same basis as they are made everywhere else. This is a company that was committed to the Pacific for a very long time. Somehow it did not do well, and then the board hired a new Chairman, and he said, Guess what? I am going to cut this bank in half. And nobody said, no, you cannot do this. Well, this is good for this. This is good for that.

So those are the kinds of decisions. The background to the problems; I would be very happy to speak to that privately or on the record. But the point is that the importance of the Pacific to the United States I do not think should be measured by business presence. And there are problems with, yeah, credit and this and that. I will be very happy to brief the Members on that any time.

Mr. LEACH. Thank you. We do have that problem in this country. In fact, Ms. Watson, we had a former student from Michigan who had a student loan, and he disappeared. They found him as the head of the Office of Management and Budget. In any regard, the Committee is adjourned.

[Whereupon, at 12:35 p.m., the Subcommittee was adjourned.]

APPENDIX

MATERIAL SUBMITTED FOR THE HEARING RECORD

PREPARED STATEMENT OF THE HONORABLE EARL BLUMENAUER, A REPRESENTATIVE
IN CONGRESS FROM THE STATE OF OREGON

In examining the key political, environmental, economic, and development issues affecting the Pacific Island Nations, we cannot ignore global warming. Its impacts will have severe implications for the economy, the environment, and the well-being of Pacific Island residents.

Sea level worldwide has risen 9 inches in the last century, and 46 million people already live at risk of flooding due to storm surges. This figure would double if the oceans rise 20 inches. The United Nations recently warned that the sea levels could rise 3 feet by the year 2100.

This sea level rise could have a severe impact on countries like Tuvalu, a tiny nation 0.1 times the size of Washington, DC whose highest point on land is 5 meters above sea level. If the sea levels rise as much as predicted, the 10,000 residents of Tuvalu will turn into "environmental refugees," forced to seek higher ground in New Zealand or Australia as rising sea levels put their cities under water.

I understand that the Island nations of Tuvalu and Kiribati are already developing concrete emigration plans to evacuate the islands this century. The sad irony is that their citizens' only resource is water, so these two island nations have not contributed to many of the factors that are known to cause global warming. The threat of their island sinking has even caused talk of lawsuits brought upon U.S. governmental agencies or industries by victims of global warming that would bear costs similar in magnitude to the recent lawsuits against tobacco agencies.

The Committee also notes that tourism is an important source of revenue in the region. I would note that the tourist bureau on the island of Tuvalu is advertising that tourists should come visit before it is too late and the island sinks.

The Pacific Islands receive the highest per capita level of foreign aid in the world. We ought to examine where we are putting our resources. The United Nations estimates the costs of global warming at more than \$300 billion a year. Much of the foreign aid that we send to these countries will be to help them deal with environmental and economic problems caused by increased flooding and storms.

If nothing is done to curb global warming, islands like Tuvalu and Kiribati will face severe beach erosion, destruction of coral reefs, increased salinity in ground-water supplies, and the spread of disease that could threaten human life. People on the island of Tuvalu are already thinking about relocation. Instead of waiting until their island becomes inundated and helping them after the fact, we should be more proactive in our assistance.

Small island states account for less than 1% of the world's greenhouse gas emissions, yet they are the most vulnerable to the effects of climate change. The United States is the single largest generator of greenhouse gases, contributing one quarter of the global total. Implementing policies here in the US to reduce global warming would help alleviate the problems facing countries like Tuvalu and in the long run, could be more cost effective than providing aid to relocate these people or deal with the subsequent environmental problems.

Global warming will also have an impact on diplomacy in the region. The regimes in these island countries will no doubt become less stable when they are forced to deal with the effects of flooding and increased natural disasters associated with global warming. Rapid population growth and shrinking habitable lands will put additional pressures on natural ecosystems and resources.

This area of the world is important environmentally. Rising sea levels will decrease habitat for important species. Warming temperatures in the seas will also harm coral reefs, which harbor a major share of the world's marine biological diver-

sity and act as vital nurseries and seeding-grounds for many sensitive deep-sea species. Rising sea temperatures due to global warming are the leading cause of coral reef bleaching. Already 27% of the world's coral reefs have been destroyed in the past 50 years and another 30% are at risk of dying by 2050. The disappearance of this important ecosystem will have severe ecological and also economic effects on countries whose economies rely on fish and tourism.

I appreciate the Chairman and Ranking Member's willingness to hold a hearing on this part of the world that gets us to start thinking about the United States' involvement in these countries'. I look forward to working with the Committee to look at environmental issues in this region more closely.

LIST OF THE 10 MEMBERS OF THE YUAN FROM TAIWAN

Mr. Chai, Trong-Rong, Foreign and Overseas Chinese Affairs Committee (Leader)
 Ms. Yao, Chou Ching-Yu, Sanitation, Environment, & Social Welfare Committee
 (Deputy Leader)
 Ms. Hsiao, Bi-Khim, Foreign and Overseas Chinese Affairs Committee (Spokes-
 person)
 Mr. Shen, Fu-Hsiung, Finance Committee
 Mr. Lee, Chun-Yee, Economics and Energy Committee
 Ms. Yeh, Yi-Jin, Home and Nations Committee
 Mr. Chen, Mao-Nan, Finance Committee
 Mr. Chen, Tan-Sun, Sci-Tech and Information Committee
 Mr. Lee, Ming-Hsien, Education and Culture Committee
 Mr. You, Ching, Judiciary Committee

Table on Amended Compact Funding
 Federated States of Micronesia
 (in millions, see attached Notes)

<i>Fiscal Year</i>	<i>Grant (N/1,3&5)</i>	<i>Trust Fund (N/2,3,4&5)</i>	
<i>Total</i>			
2004	76	16	92
2005	76	16	92
2006	76	16	92
2007	75.2	16.8	92
2008	74.4	17.6	92
2009	73.6	18.4	92
2010	72.8	19.2	92
2011	72	20	92
2012	71.2	20.8	92
2013	70.4	21.6	92
2014	69.6	22.4	92
2015	68.8	23.2	92
2016	68	24	92
2017	67.2	24.8	92
2018	66.4	25.6	92
2019	65.8	26.4	92
2020	64.8	27.2	92
2021	64	28	92
2022	63.2	28.8	92
2023	62.4	29.6	92

Notes to Tab 1:

- (1) Commencing in FY-2007, grant funds are decremented by \$.8 million per year, with the decremented funds going to the trust fund.
- (2) Commencing in FY-2007, trust funds are increased by \$.8 million per year, with these incremented funds coming from the grant account.
- (3) An inflation adjustment will be per the proposed section 217 of the draft Title II language.
- (4) FSM to contribute funds (at least \$30 million) in addition to the U.S. contribution to the trust fund in FY-04.
- (5) Grant and trust fund amounts do not account for other FSM or third party contributions.

Table on Amended Compact Funding
 Republic of Marshall Islands
 (in millions, see attached Notes)

<i>FY</i>	<i>Grant</i>	<i>Kwajalein Impact</i>	<i>Trust</i>	<i>Sub-total</i>	<i>Kwajalein Payments</i>	<i>Total</i>
<i>Notes (1&3)</i>	<i>(3,6)</i>	<i>(2,3,&4)</i>			<i>(3,5&6)</i>	<i>(3)</i>
2004	29.8	4.1/1.9	7	42.8	11.3	54.1
2005	29.3	4.1/1.9	7.5	42.8	11.3	54.1
2006	28.8	4.1/1.9	8	42.8	11.3	54.1
2007	28.3	4.1/1.9	8.5	42.8	11.3	54.1
2008	27.8	4.1/1.9	9	42.8	11.3	54.1
2009	27.3	4.1/1.9	9.5	42.8	11.3	54.1
2010	26.8	4.1/1.9	10	42.8	11.3	54.1
2011	26.3	4.1/1.9	10.5	42.8	11.3	54.1
2012	25.8	4.1/1.9	11	42.8	11.3	54.1
2013	25.3	4.1/1.9	11.5	42.8	11.3	54.1
2014	24.8	4.1/1.9	12	42.8	11.3	54.1
2015	24.3	4.1/1.9	12.5	42.8	11.3	54.1
2016	23.8	4.1/1.9	13	42.8	11.3	54.1
2017	23.3	0	13.5	36.8	0	36.8
2018	22.8	0	14	36.8	0	36.8
2019	22.3	0	14.5	36.8	0	36.8
2020	21.8	0	15	36.8	0	36.8
2021	21.3	0	15.5	36.8	0	36.8
2022	20.8	0	16	36.8	0	36.8
2023	20.3	0	16.5	36.8	0	36.8

Notes to Enclosure 1:

- (1) Grant funds are decremented by \$.5 million per year, with the decremented funds going to the trust fund.
- (2) Trust funds are increased by \$.5 million per year, with these incremented funds coming from the grant account.
- (3) An inflation adjustment will be applied similar to that in section 217 of the current Compact.
- (4) RMI to contribute funds, at least \$30 million in addition to the U.S. contribution to the trust fund by FY-06.
- (5) Under Article X(4)(a) of the Military Use and Operating Rights Agreement (MUORA) -- \$7.1 million with inflation adjustment through FY-2016.
- (6) Compact section 213 and Article X(4)(b) of the MUORA provides \$1.9 million per year not inflated, and the proposed Compact Title Two will provide \$4.1 million per year, both inflated, through FY-2016.